OFFICIAL ASIM PUBLICATION

The National Insurance Buyer

CORPORATE INSURANCE MANAGEMENT

AN INFORMED BUYER IS A BETTER BUYER

The Chase Manhattan Bank Building — A New Sky-line for Lower Manhattan

Photo by Ezra Stoller

AMERICAN SOCIETY OF INSURANCE MANAGEMENT

Volume 4 May 1957 Number 3

OFFICIAL ASIM PUBLICATION

The National Insurance Buyer

CORPORATE INSURANCE MANAGEMENT

LINDA BURKE
Editor

We Honor...

New York Chapter, ASIM on its silver anniversary — the twenty-fifth year of continuous performance for the benefit of corporate insurance management everywhere.

From the Insurance Buyers of New York in 1932 to Risk Management Institute in 1935, to New York Chapter, ASIM in 1957 a chapter of which to be proud. We honor those who had the vision to realize the needs of an organization of insurance managers and we honor those who are perpetuating that vision with fortitude and dignity.

About the cover . . .

Realizing that this May 1957 issue contains its share of nostalgia, we felt it appropriate to incorporate something very new with something old:

For more than a quarter of a century the soaring skyline of lower Manhattan has known no major change. But now a new giant is growing among the forest of skyscrapers — the new head office tower of the Chase Manhattan Bank — at the corner of Nassau and Liberty streets.

Chase Manhattan's new building is more than just a 60-story, 800-foot tower. Designed by Skidmore, Owings & Merrill, it represents an entirely new approach to building in the crowded financial district. The base on which the rectangular metal-and-glass shaft will stand will be a spacious 2½-acre plaza covering most of two city blocks. Pedestrians, accustomed to the walled-in streets of the district, will find in front of the building an open vista of trees, thematic sculpture and a sunken pool.

The plan, however, is severely practical. Beneath the plaza, huge open floors will provide efficient space for such large-volume operations as check-handling. The tower itself has a simple basic floor plan adaptable to any present or future need. Supporting columns are set outside the tower to give maximum usable floor space within. The total floor area of the project will be more than 2,250,000 square feet. The tower, 281 ft. by 107 ft., will have 30,400 sq. ft. on each floor.

According to present plans the tower will be ready for occupancy early in 1960. Two more years wil be required to raze a number of adjacent buildings now used by the bank and to complete the plaza.

Total cost of the Chase Manhattan project is estimated at $121 million, including equipment and furnishings. A $60 million first mortgage has been arranged with the New York State Teachers Retirement Fund.

The National Insurance Buyer, published bi-monthly as the official publication of The American Society of Insurance Management, Inc., Martinique Building, 49 West 32nd St., New York 1, N. Y. Linda Burke, Editor.

Insurance Buyers of New York — 1932

Risk Research Institute, Inc. — 1935

New York Chapter — NIBA 1951

New York Chapter — ASIM — 1955

A Silver Anniversary

In May 1932, Insurance Buyers of New York was born. Meeting by appointment for a round-table discussion of their mutual insurance problems, Kenneth C. Bell of Chase National Bank, William F. Lund of U. S. Rubber Company, J. A. Robinson of McKesson & Robbins, Inc., George E. Rogers of Robert Gair Company, and A. M. Schmidt of Johns-Manville Corporation, were the five men who envisioned an organization of insurance buyers in New York City.

These gentlemen had become acquainted at annual conferences of the Insurance Division of the American Management Association where both *buyers* and *sellers* of insurance had exchanged opinions on matters of common interest. Although AMA had given them a wealth of knowledge and valuable ideas, these five buyers foresaw that greater benefits could be derived from more frequent meetings for corporate insurance buyers ONLY.

Those who participated in this first, informal meeting agreed that it was so fruitful, that much could be gained by holding regular monthly meetings. They invited insurance buyers of other corporations in and around New York City to join with them.

By December of 1932, the original group of five had increased so formidably that George E. Rogers was chosen their leader, membership dues were collected, and the Insurance Buyers of New York came into being.

With more than fifty members in 1935, this thriving and energetic Insurance Buyers of New York was receiving recognition in the insurance affairs of New York State — and the nation. But while it had grown in numerical stature and acknowledged leadership, members learned that the appointed task of every corporate insurance buyer was the subjection of RISKS. The job of the insurance buyer consisted primarily of identifying the risks of loss to which his company was exposed, appraising its nature and potentiality, and developing effective safeguards against the financial distress which might occur.

Diligent efforts were made to eliminate risks and the attention of management was focussed on loss prevention. The knowledge which the insurance buyer acquired on each risk threatening his company's security was so complete and exact that the process of selecting and buying appropriate coverage was greatly simplified and the required investment in insurance was reduced to the minimum.

Risk Research Institute, Inc.

In the belief that the real adversary of all business enterprises was RISK, the Insurance Buyers of New York changed its name in 1935 to Risk Research Institute, Inc. It was a national group, incorporated in the state of New York and was to serve as the eyes, ears and voice of corporate insurance buyers and managers everywhere. Its first officers were: A. M. Schmidt, president; A. V. Miller, 1st vice-president; J. A. Robinson, 2nd vice-president. Directors were: W. F. Lund, U.S. Rubber Company; A. V. Miller, New York Herald Tribune; J. W. Myers, Standard Oil Company, (N. J.); J. H. Nickell, Philadelphia Electric Company; J. J. Potts, Jr., American Radiator Company; J. A. Robinson, McKesson & Robbins, Inc.; George E. Rogers, Robert Gair Company; A. M. Schmidt, Johns-Manville Corporation; W. A. Sullivan, Loose-Wiles Biscuit Company; and M. J. Zemek, Colgate-Palmolive-Peet Company.

New York Chapter

By 1950, in response to requests from insurance buyers, insurance commissioners, legislators, and many others from all over the country, the National Insurance Buyers Association, Inc., was organized and incorporated in the state of Illinois. This was an inevitable evolution — and in February of 1951, following the November 1950 organization of the National Insurance Buyers Association, Inc., in Chicago, Risk Research, Institute, Inc., became New York Chapter, NIBA. When, in 1955, the National Insurance Buyers Association, Inc., became the American Society of Insurance Management, Inc., New York Chapter automatically became a chapter of ASIM.

Thus, in twenty-five years, we have the birth, evolution and growth of New York Chapter — now celebrating its silver anniversary.

(More on page 4)

Evaluation of Influence

During these twenty-five years, the strength and influence of Insurance Buyers of New York, Risk Research Institute, and New York Chapter is so vast that to list in detail the many achievements of its officers and members would consume a volume in itself. It has been a leader in the fields of legislation, education, public relations, insurance practices and insurance management. Elsewhere in this issue of *The National Insurance Buyer* is evidence of this leadership, reprints supporting the activities and accomplishments, acknowledgement of recognition of this organization.

Presidents

1932-1935 George E. Rogers
1935-1939 A. M. Schmidt
1939-1941 Ralph Bell
1941-1943 J. A. Robinson
1943-1944 R. D. Guernsey
1944-1946 George E. Rogers
1946-1948 W. J. Fitzsimons
1948-1950 Harry E. Goodell
1950-1952 Ernest L. Clark
1952-1953 B. E. Kelley
1953-1955 Claude H. Rice
1955-1956 Raymond Cox
1956-1957 William D. McGuinness

W. D. McGuinness, President
New York Chapter, ASIM

Present Officers

Present officers of New York Chapter, ASIM are: W. D. McGuinness, president, (Port of New York Authority); H. Stanley Goodwin, first vice-president, (McKesson & Robbins, Inc.); Frank Hornby, Jr., second vice-president, (Ebasco Services Incorporated); J. S. Southwick, treasurer, (Ethyl Corporation); and Robert B. Schellerup, secretary, (Union Bag-Camp Paper Corporation).

Survival

There were some doubts in the good, old days that such organization could survive. Survive it did — and survive it will! From an informal group of five in 1932 to a formal chapter of almost two-hundred company members in 1957 is evidence of its dynamic growth and potentiality. It is a giant step toward progress!

In This Issue

Who Went To Bat for Multiple Line Underwriting?

Risk Research Institute Sponsored Legislation

(reprinted from a news release, dated April 8, 1947 by Risk Research Institute, Inc., New York, N. Y.)

The insurance law of every state in the United States and the entire world insurance business were affected today, when Governor Thomas E. Dewey of New York signed the Multiple Line Underwriting bills sponsored by Risk Research Institute Inc., the national association of insurance buyers, and carried through the 1947 Legislature by Senator MacNeill Mitchell (Rep.-NY) and Assemblyman P. R. Sirignano (Rep.-Westch.). Not only insurers domiciled in New York have benefited by this progressive legislation. Insurers domiciled in some 37 other states in the nation may now, for the first time in many years, employ rights and privileges which the laws of their own states gave them years ago.

The insurance-buying public of the country also owes a debt of gratitude to the Institute, an organization composed entirely of, and operated exclusively for policyholders, for its continuing efforts in their behalf.

No longer need the individual car-owner buy two policies, or one policy jointly issued by two companies. As soon after January 1, 1948, as the Insurance Industry adjusts itself to the idea, any Fire, Marine, Casualty or Surety company, having the adequate financial resources specified in the new laws, can issue a single, simple policy covering all the hazards arising out of the ownership, use or maintenance of a motor vehicle.

The "Personal Property Floater" bill sponsored by Risk Research Institute last year became law in New York on July 1, 1946. By the enactment of this measure the public gained a vastly broadened market in which to buy convenient, "one-package" coverage of personal property ranging from household furniture to wrist-watches and golf-clubs. Casualty and surety underwrters, as result of the enactment, found both a way to recoup premiums then being diverted to the Fire companies — which were writing burglary, theft, and other "casualty" covers in the Personal Property Floater — and a way to put tremendous reserves into active work in the business.

The other bill successfully carried through by the Institute last year also benefited both insured and insurers. This was the "Multiple Line Reinsurance" measure, which also became effective last July 1, enabling fire or marine carriers to reinsure casualty or surety risks, and vice versa. Here again policyholders were provided a greater and more secure market. The need for them, or their insurers, to go outside the United States for adequate protection was reduced, while the more than $2,000,000 heretofore paid annually to alien reinsurers could also largely be kept in this country. While it is to early, as yet, to estimate the premium trends this change established, it is known that many American "fleets" are using the new privilege to great advantage.

The extension obtained by the Institute this year, of complete multiple underwriting powers applicable to risks outside the United States other than life or annuities, appeared to be an amendment of last year's reinsurance measure. This, however, is only a peculiarity of placement in the New York Code. Actually, the new provision is for "direct" or "primary" coverage of such risks. American insured can now buy, and American insurers provide, full coverage of these risks on the same unrestricted basis as is usual among insurers chartered by foreign governments.

The fifth provision embodied in the Risk Research campaign is one enabling all four classes of carriers to engage in the protection of aircraft and liabilities arising out of their ownership, maintenance and use. The desirability of broader sources of this coverage has been repeatedly demonstrated, already. The enormous growth of air transportation certain in the next few years, however, will tax the entire world market, even as expanded under this new law.

Thus, when the measures were signed by Governor Dewey, buyers of insurance achieved complete enactment, in a controlling State,

(More on page 32)

Corporate Insurance Management

Today and Tomorrow

by
Joe T. Parrett
1st Vice President — American Society of Insurance Management, Inc.
Insurance Manager — Carnation Company, Los Angeles

Joe T. Parrett

Being the anchor man on a session such as this has many disadvantages—first, following a group of capable and illustrious speakers as we have heard makes for comparisons that will obviously result in a let down for you, and a complete disclosure of my inadequacies. There is also the problem of posterioritis. Posterioritis is an occupational malady that befalls all conferences and convention delegates. The symptoms are rather persistent pains in lower back and other regions immediately adjacent thereto. There is also a disfunction of the upper right lobe of the medulla oblongata of the brain. This is the portion of the brain that gives us our sense of time and the ability to measure it. The condition causes a complete slowdown of the brain's functions and minutes seem like hours. If you think I'm rambling too long, all I can say is that it's all in your mind.

We have been privileged to hear some fine talks today by capable men on specific subjects. Since this phase has been so ably handled, I thought I should like to delve into some of the generalities of our work.

I should like to take a critical look at ourselves — where we came from, where we are now, and where we are going.

Yesterday's Insurance Manager

Up to a few years prior to World War II, the field of Corporate Insurance Management was a rather small one. Only a few larger companies felt disposed to attach enough importance to their insurance program to place the responsibility of it in the hands of an individual or department. Not too many years ago the usual philosophy of management was to put their insurance problems in the hands of from one to fifty agents or brokers, and expect those agents or brokers to be not only mind readers but also be possessed of ultra psychic powers which not only enabled them to find out what was going on presently, but anticipate the future. This to be accomplished, of course, with very little oral communication, and written contact was strictly taboo.

It wasn't long before heads of many business firms began to realize the importance of properly protecting corporate assets, and awakened to the need of a liaison or contact with the outside insurance world.

Thus the modern concept of a Corporate Insurance Manager was born. Whether this new born child of modern business was a product of legitimacy or born out of wedlock has been a subject of some debate, particularly among agency and insurance company people. It has been said we have no fathers, only mothers. I suspect some of these snide remarks have not been without some justification.

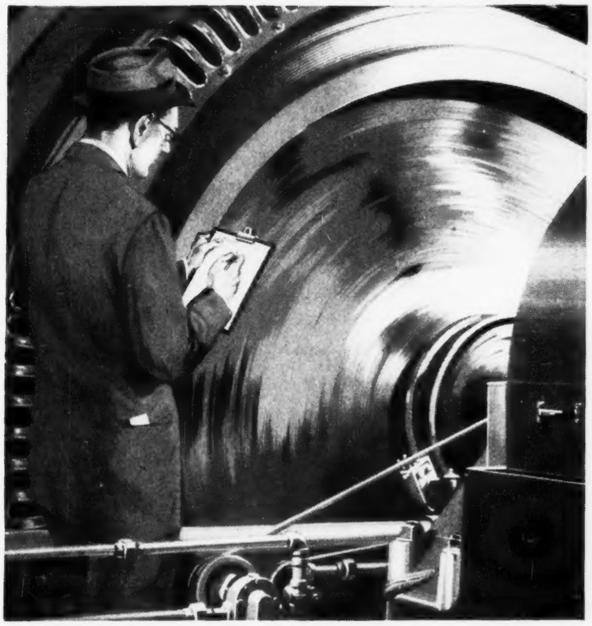
Today's Insurance Manager

What is the true professional Corporate Insurance Manager like today, and what will he be like tomorrow? It has been said that a risk manager must be an individual who is capable of viewing his own company's operations through an insurance man's glasses, and being able to communicate his observations to agents and companies that proper insurance may be obtained. This certainly is true, but not all of the story. What should be the functions of a professional Insurance Manager?

The statement that the Insurance Manager's duties are to properly protect the assets of the Corporation against financial shock is a little shop worn, and too general. Let's go a little deeper.

Firstly, and most elementary, he must know the business and operations of his own company. A good Insurance Manager's activities transverse all staff and division lines. He cannot properly communicate problems to outsiders if he doesn't know what's behind those problems. I will give you an example. I know a case where a professional thinking insurance manager, by acquainting himself with some of the plants of his company, came across an unusual situation. A sizable Business Interruption policy was carried on all of these plants. The plants all obtained a very important raw material from one source. It had been overlooked that if the raw material source was shut down, his company's plants would be inoperative even though intact. He also found that in the event one of his own

(More on page 34)



Insurance tailored to your needs

Inspection to guard against accidents

Insure your power equipment
to keep power alive!

Power, *alive*, is a great asset. It keeps wheels turning to produce earnings. It has the Midas touch!

Power, *dead*, is a great liability. It stops profits . . . and amasses debts. It has the beggar's touch!

Dead power . . . from a damaged boiler, a burned-out motor, a broken steam line . . . can cost you money in very real ways. Not only in repair and damage bills, but also in loss of income with continuing expenses while production is halted.

You can protect yourself against such losses and at the same time lessen the likelihood of accidents when you insure with Hartford Steam Boiler. This Company has *specialized* in power plant insurance since 1866 and its services provide extra values.

You benefit through a three-fold program designed to promote proper coverage *Before* the policy is issued; to avoid accidents *During* the life of the policy; and to aid you in quick plant rehabilitation *After* an accident, should one occur.

These *extra values* BDA are available to you now, through your own insurance agent or broker. See him today . . . and remember, power *alive* is your greatest asset!

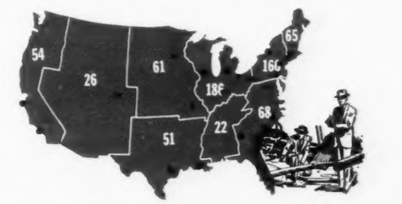
THE HARTFORD STEAM BOILER
INSPECTION
AND INSURANCE COMPANY
Hartford 2, Connecticut

Remember, INSPECTION is our *middle* name

THREE EXTRA-VALUE SERVICES

Before the policy is issued, you and your agent can have expert underwriting assistance by Hartford Steam Boiler Special Agents and regional offices, to provide coverage tailored to your needs.

During the life of the policy you will benefit from Hartford Steam Boiler's accident-prevention service. More than 600 Company Field Inspectors, backed by regional engineering staffs, spend full time inspecting insured equipment to detect faulty conditions — and recommend remedial action.



In this map, the figures indicate the number of key engineering personnel in your area, and the dots locate supervising branch offices.

After an accident is when Hartford Steam Boiler can be of priceless assistance — with prompt, on-the-spot help by Company specialists *who know your equipment*, and the co-operation of this nation-wide organization, working to speed resumption of production and make equitable settlement.

Robert W. Harvey

The Variable Annuity Principle in Group Pension Planning

by
Robert W. Harvey
Prudential Insurance Company of America
(Verbatim speech made before Houston Area Insurance Buyers Association, ASIM)

About the Author . . .

Robert W. Harvey, executive general manager of administration in the Southwestern Home Office of the Prudential Insurance Company of America, joined the Prudential on July 1, 1940.

Mr. Harvey is a native of Kansas City, Missouri, and a 1940 graduate of Harvard College. He has been associated with the Prudential since 1940, except for four years of World War II, during which time he served as a pilot in the Air Corps.

Mr. Harvey started with the Prudential in the Actuarial Department and became a Fellow of the Society of Actuaries in 1947. He was transferred to Houston in 1952 as general manager when the Prudential opened its Southwestern Home Office. He was promoted to executive general manager in 1953.

Active in civic affairs in Houston, he is currently chairman of the Executive Committee, Health Section, Community Council; a member of the Budget Committee of the United Fund; vice chairman of the Education Committee of the Houston Chamber of Commerce; a member of the Board of Directors of the Child Guidance Center of Houston and the Board of Trustees of the 40 Plus Club of Houston.

I work for a company that wants to buy some insurance. This may sound like a freak beginning—but it is not. For although the Prudential sells a lot of insurance, we also buy a lot. Our Personnel Department is one of our Group Insurance Department's best customers. We have bought their Group Life Insurance, Group Disability Insurance, Group Hospital, Surgical and Major Medical Expense Insurance, a Group Annuity and now we want to buy a Group Variable Annuity. And we will buy one just as soon as we are able to get legislation in our home state of New Jersey to permit us to sell ourselves one.

So, what I hope to do today is to explain, as one insurance buyer to others, what variable annuities are and why we want to provide them for our employees.

I imagine that just about everyone here is familiar with the concept of a life annuity as it is customarily used for pension plan purposes It is a device by which money is provided to furnish an income to a retired employee, the income to continue so long as he lives. And we commonly think of it as providing a certain fixed number of dollars of income each month. In fact, this certainty of the annuitant's income is almost legendary and is, and has been, the subject of much life insurance company advertising which extols the pleasure of a carefree retirement.

Why, then, should we who now have a fine retirement plan for our employees, want to buy, in lieu of part of what we now have, a variable annuity plan? Because we have seen amply demonstrated the fact that a carefree retirement is not guaranteed by the promise of a fixed number of dollars. A fixed number of dollars is not equivalent to a fixed quantity of food and clothes and living space. And the variable annuity idea comes closer than anything else we have seen to providing the means of obtaining an income which is responsive to a changing cost and standard of living

I wish that we at the Prudential could claim the credit for originating and giving substance to this idea. But we can't. The immediate history of the idea begins at Harvard University about eight years ago when a group of faculty members became very disturbed about the inadequacy of the pensions on which their faculty associates were retiring and on which they themselves were scheduled to retire. These pensions were provided under retirement annuity contracts issued by the Teachers Insurance and Annuity Association and, when the pension plan was established, the expected pensions were certainly not inadequate The villain was inflation. The dollar of pension then being received by retired professors was far from equivalent in value to the dollar which had been contributed in previous years of active employment.

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"Hold Harmless" — *a vicious circle!*

The practice of inserting a so-called "hold harmless" clause in various types of contracts has spread so extensively in recent months that a veritable plague is now rampant. Until a short time ago this type of clause was found principally in leases, major construction contracts, and railroad sidetrack agreements, but today nearly all purchase order forms, and other similar informal documents, contain such a provision. As a result, many commercial concerns that have innocently or consciously accepted purchase orders subject to "hold harmless" agreements are now in the insurance business on a large scale.

Some conception of the gravity of the situation that has developed may be gained by reading the communications, reproduced in the latter part of this brochure, received from SKF INDUSTRIES, INC., THE NATIONAL BUREAU OF CASUALTY AND SURETY UNDERWRITERS, which is the rating organization of the leading stock casualty insurance companies, the LIBERTY MUTUAL INSURANCE COMPANY, the AMERICAN MUTUAL LIABILITY INSURANCE COMPANY, and the treatise on the subject published in the bulletin of the NATIONAL ASSOCIATION OF PURCHASING AGENTS. Conferences with representatives of the NATIONAL ASSOCIATION OF CASUALTY AND SURETY AGENTS, the NATIONAL ASSOCIATION OF INSURANCE AGENTS and the NATIONAL ASSOCIATION OF INSURANCE BROKERS bring out that these organizations are also cognizant of the seriousness of this problem, and wholeheartedly endorse our decision to attack the matter at its source.

If, after reading the aforementioned communications, there are any who question the dangers inherent in "hold harmless" clauses, they need only withdraw from their files a random dozen of the purchase orders which they have accepted during the past few months and see the evidence for themselves. Perhaps to their surprise, they will discover that they have become a party to a wide variety of such agreements, of which the following is typical:

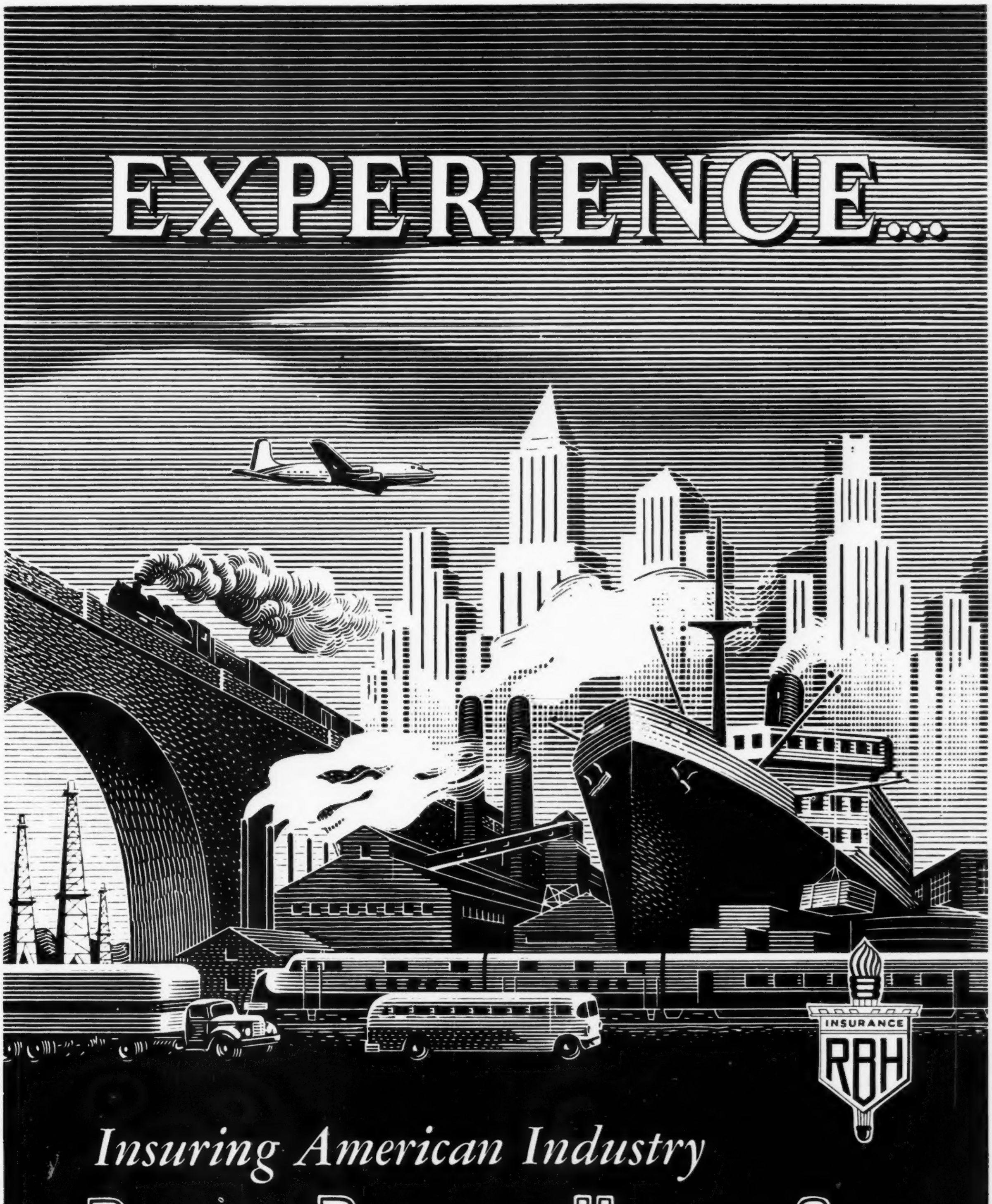
"The undersigned seller hereby certifies to buyer that he is an 'employer' within the meaning of the Federal acts or laws or acts or laws of the state or states wherein he operates, pertaining to Workmen's Compensation and Unemployment Compensation or Insurance, and is complying with the terms of these acts or laws. The undersigned agrees to indemnify and save harmless the buyer from any and all claims of any nature whatever, either relating to injuries or occupational disease (including death resulting therefrom) to, or caused by, any employee of said contractor or any subcontractor of his, arising in connection with any contract or order with the buyer, or relating to Unemployment Compensation or Insurance Contributions measured or based upon employment in connection therewith. The contractor agrees to reimburse the buyer for any payments made by the buyer on account of any claim made against it in this connection."

It is also probable that they have made no provision whatever for transferring the liability which they have accepted under each purchase order to the insurance company writing their public liability coverages.

As the agreement quoted above indicates, the "hold harmless" clause is a device whereby party A is required to protect party B against claims or losses incurred by party B as the result of injury to person or property occasioned directly or indirectly by the operations, service, or other matter constituting the subject of their agreement. In general, party A (usually the seller, contractor, lessee, etc.) is expected to furnish this protection regardless of the fact that he may, in consequence, be compelled to pay claims for injuries caused solely by party B's (usually the buyer, owner, lessor, etc.) negligence; therefore, to the extent that party A is obligated to answer for party B's faults, party A is acting in the capacity of insurer of party B.

Of course, there can be no valid objection to a seller, contractor, or lessee acknowledging in writing that they will be responsible for the payment of any debt, judgment, or claim for which they are legally responsible anyway, but if they agree in addition to pay taxes, judgments or claims for which

(More on page 42)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Montreal Insurance Buyers Association Joins ASIM

Montreal Insurance Buyers Association is the first group of corporate insurance buyers and managers outside the United States to become a chapter of the American Society of Insurance Management, Inc.

It is the fifteenth chapter in a growing membership of companies to affiliate with ASIM. Meetings will be held on the 3rd Thursday of each month for luncheon.

J. G. Harper of Northern Electric Company, Limited, is president; and serving with Mr. Harper are: H. H. Cowan, Steinberg's Limited, vice-president; and Glen Buchanan, The Shawinigan Water & Power Company, secretary-treasurer.

Designated as the Montreal Insurance Buyers Association, charter company members of this new chapter are:

Aluminum Company of Canada, Ltd.; Atlas Asbestos Company, Limited; The Bell Telephone Co. of Canada; Canadian Celanese Ltd.; Canadian Industries Limited; Canadian International Paper Corporation Limited; Canadian Marconi Company; Canadian Pratt & Whitney Aircraft Company, Limited; Consolidated Paper Corporation Limited; Dominion Bridge Company Limited; Dominion Engineering Works Limited; Dominion Glass Company Limited; Dominion Textile Company Limited; Du Pont Co. of Canada (1956) Ltd.; The Foundation Co. of Canada Limited; Imperial Tobacco Co. of Canada Limited; Northern Electric Company, Limited; Rolls-Royce of Canada, Limited; The Shawinigan Water and Power Company; and Steinberg's Limited.

There is nothing "limited" about the new members or the "limit" to which this chapter can go. The officers and members of the American Society of Insurance Management, Inc. extend a warm welcome to their Canadian associates.

J. G. Harper, President
Montreal Insurance Buyers Association, ASIM

J. G. Harper, President of Montreal Insurance Buyers Association

J. G. Harper, president of Montreal Insurance Buyers Association, ASIM, was born in England and was educated at Rugby School and Cambridge University where he was graduated with a degree of Master of Art.

He came to Canada in 1929 where he became affiliated with Northern Electric Company, Limited. At present he is Assistant Secretary of Northern Electric Company, Limited, Montreal.

Mr. Harper served in the Canadian Army from 1940 to 1945 and was discharged with the rank of Major at the end of the war. He is a member of the Montreal Institute of Administration and a Fellow of the Chartered Institute of Secretaries.

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Being a husband is like any other job—it makes it a lot easier if you learn to like your boss.

Central Illinois Chapter ASIM Reports on 3d Annual Seminar

The Third Annual Seminar which was held on the campus of Illinois Wesleyan University on March 29th and which was sponsored by Central Illinois Chapter ASIM in cooperation with Illinois Wesleyan University, was a great success.

Those who participated in the program and their subjects were: H. J. Bleser, Superintendent, Special Risks Department, Hartford Fire Insurance Company — *"The Commercial Block Policy"*.

Robert M. Beatty, vice president of W. A. Alexander & Co., Chicago — *"What a Broker Expects of a Risk Manager"*.

Roy L. Jacobus, Manager of the Insurance and Pension Department, Ford Motor Company — *"Functions of a Corporate Insurance Department"*.

A. G. Fox, Manager of the Bond Department, Marsh & McLennan, Inc. — *"Creative Suretyship"*.

Leo S. Karlin, Chairman of the Negligence Section of the Illinois State Bar Association — *"Bodily Injury Awards"*.

Insurance Hall of Fame Awards

Ceremonies held under auspices of Ohio State University and the Charles W. Griffith Memorial Foundation for Insurance launched the Insurance Hall of Fame on March 1.

First names entered into the Hall were those of Benjamin Franklin, founder of the first insurance company in America; Elizur Wright, the country's first insurance commissioner; and Dr. Solomon S. Huebner, emeritus professor of insurance at the University of Pennsylvania.

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Nothing puts zest into planning a trip like the knowledge that it's going to be on an expense account.

The Buyers Become Articulate

When the annals of the insurance industry for the year 1951 are reviewed it is our humble opinion that perhaps the most significant event of the period will be found to have consisted of the establishment of formal organizations of insurance buyers throughout the nation.

With perfectly natural pride in the West, we are glad to be able to point out that much of the leadership in this undertaking has been exerted by Westerners. The Honorable Peter Burke, former Nevada legislator, has been one of the moving spirits in the conversion of the old Risk Research Institute into a National Buyers Association and is now executive secretary of that organization; his brother, Jack Burke, of the Coast Service Company at San Francisco, has performed yeoman service in the establishment of branches of the organization in the Pacific Coast area, and L. M. Van Deusen, insurance manager for California and Hawaiian Sugar at San Francisco, has been named as one of the directors of the national body.

We are pleased, too, to note in accordance with its practice of keeping abreast of the times, WESTERN UNDERWRITER has adopted the practice of devoting more and more space to the buyer's point of view. The widely read article by Mr. Van Deusen, entitled "What Is an Insurance Buyer," which appeared in the November issue, is followed by one this month from Mrs. Chalmers of the insurance department of Fibreboard Products, under the caption "A Buyer Looks At Comp." It is our hope that as time goes by we may be able to give considerable space to the opinion of buyers on various lines of insurance.

The absence of an articulate buyer's group in the past has been almost a unique feature with the insurance industry and it has presented many handicaps. Like all other forms of business, insurance always has desired to develop a product which would give a maximum of satisfaction to its customers, but it has never had any adequate method of determining what the customer really wanted.

The manufacturers of automobiles, the designers of clothes, the vendors of radio sets — almost any type of business you can mention — always go to considerable bother to find out what their consumers really desire and then direct their plans to fill those needs. We in insurance have more or less had to shoot in the dark. We have been compelled to sit in our own offices and try to decide what it might seem logical to expect the policyholders to want, and then to proceed on the basis of that cloistered reasoning. But never have we known for sure whether our basic deductions were correct or not. It has been this procedure, more than anything else, which has given rise to such spirited discussions as to whether it would be preferable to offer limited forms of coverage at a low price or more extensive for higher premiums.

At moments this inability to determine what the consumers really wanted has led to some rather ludicrous situations. Such a development occurred a few years ago when it became necessary to adopt some sort of State regulatory legislation. Everybody agreed that this legislation should be fashioned so as to provide the maximum advantage for the buying public, but it became something of an issue as to who could pretend to speak for the public.

As we recall it, the agents suggested that since they had contacts with the public over the widest area, they were the ones who best understood its needs. No, said the brokers, agents are merely company employes, and we are the ones who can speak for the people because we serve them in an independent capacity. Some of the officials of the State Insurance Department felt that neither the agents or the brokers could speak for the public as well as could they, who were its official representative. In all this mad scramble we had everybody pretending to speak for the buyers of insurance except the buyers themselves.

Just as Pope suggested that "the proper study of man is man," so we feel that the proper person to speak for the buyer of insurance is the buyer himself.

With the buyers' movement making rapid strides, it is our hope that these organizations may be established on a broad enough basis so that they may be truly representative of the general public. The approach must be a constructive one. It would be most unfortunate, we believe, if these organizations were limited in their membership merely to the officials of a few corporations which happen to be the biggest premium-payers. While the needs of that particular group must always command much attention, it must not be forgotten that it will be in meeting the needs of the smaller policyholder that the institution of insurance as a free enterprise undertaking will survive or perish. We hope that this element may be included in the present buyers' movement.

We are happy to be able to note after talking with some of the leaders of the buyers' organizations that they fully intend that these bodies shall be as inclusive as possible. There is nothing restrictive in the framework of these organizations. Buyers of all descriptions have but to take advantage of the opportunity that is offered to make this movement one which will be truly representative of the buying public as a whole. It is our hope that no effort may be spared in the attaining of that objective.

(Reprinted from "Western Underwriter," December, 1951)

INSURANCE SURVEYS . . .

what they should accomplish

George S. Burrows

by
George S. Burrows
Vice President
Rollins Burdick Hunter Company
(Speech Before Chicago Chapter, ASIM)

About the Author . . .

Mr. Burrows is a Vice President of Rollins Burdick Hunter Co. in charge of the Research, Planning and Engineering Division. He is a graduate of Yale University. During the ten years Mr. Burrows has been with RBH, he has specialized in insurance planning.

I have been asked to talk to you on the subject "Insurance Surveys—What They Should Accomplish." In narrowing down this subject, it seemed to me that the aspects of it which might be of particular interest to you an insurance buyers might be:

The criteria which should be applied in determining who should make an insurance survey for your company;

The procedures followed in planning a comprehensive insurance and loss control program; and finally;

Some observations about insurance markets which lead us to suggest "Rules of the Road" for insurance surveys.

Who Makes The Survey?

Your selection of a firm to make a survey will be influenced, of course, by the objectives of management. These might include any or all of the following:

To obtain a summary statement of the insurance program, perhaps for the Board of Directors, certifying that close scrutiny of all the insurance contracts showed them to be in order and in conformity with modern practices; or

To take a fresh look at the insurance program to determine whether new ideas, new methods of insurance, self-insurance or a combination of both might produce a better result.

This objective may or may not include re-evaluation of the services being provided by brokers, agents and insurance companies; or

To obtain, in the event of merger, a comprehensive plan for merging insurance and loss control programs and modifying them in order to realize any benefits which may be available as a result of the greater quantity and spread of risk.

Management's objectives will determine the scope of the survey to be made and certainly will have an important bearing on selection of the firm to make it. Whether a particular insurance consultant, company, agent or broker is selected may depend upon whether you need:

A policy analysis:

A study of insurance coverages required by the corporation, based upon discussions with management and supplemented by cost analysis utilizing rating manuals and knowledge of experience and retrospective rating;

Or alternatively, competitive proposals. A comprehensive study of the insurance and loss control programs might indicate that there are only certain coverages and loss control procedures which can be improved significantly. In that event, management's objectives might be fulfilled simply be receiving alternative plans of coverage within those particular areas.

Or alternatively, a complete integrated insurance and loss control program, based upon extensive field work by fire, safety and boiler engineers and insurance analysts, negotiated in dollars and cents and presented in detail.

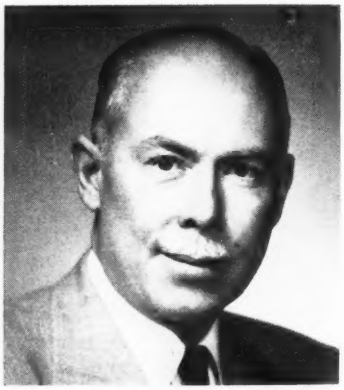
A full scale study of this type is desirable —

When there is cost advantage in recasting the entire insurance program;

When the volume of loss is such that modification of loss control measures can have a significant effect upon cost;

(More on page 22)

Current Group Insurance Trends



William N. Seery

by
William N. Seery
Vice President
Group Insurance
The Travelers Insurance Company

Some 45 years ago Group Life Insurance, as we know it today, was formally introduced. There are some differences of opinion as to who should receive credit for creating it, if not among the insurance companies, at least among those pioneering employers. Before that time numerous Mutual Benefit Associations and blanket accident approaches were used to provide benefits for accident, sickness and death.

It was a slow growth in this new line until the middle 20's, when there seemed to be (for those times, at least) a sharp acceleration, only to be followed by the doldrums resulting from the crash of '29, which continued on until the period of World War II. Of course, the advent of Social Security on January 1, 1937 was to have sounded the death knell of private Pension plans, and for that matter all forms of voluntary insurance programs.

Up until that time, what growth these lines had enjoyed could be attributed solely to farsighted Management and the persistence of insurance agents and brokers.

With the Wage Freeze during World War II, Labor entered the picture and provided the stimulus for further growth. Emphasis at first was on the group Casualty lines. They found that the membership liked it as it provided cash benefits to living members.

At the end of World War II there was another brief lull, but then, starting some five or six years ago, the avalanche, which shows no signs of abating, descended upon us. To look at the results of the most recent year will illustrate the magnitude of this coverage.

During 1956 some 17½-billion dollars of new group life coverage was placed. This represented some 2,300,000 certificate holders; and as of December 31, 1956 the total Group Life volume in force was 119-billion, representing coverage on some 36,000,000 individuals.

During 1956 benefit payments under Group Life Insurance were in excess of 675-million dollars.

Under the Group Accident and Sickness lines benefit payments during 1956 were in excess of 1.5-billion dollars, representing an increase of 20.9% over the previous year.

Hospitalization payments during 1956 amounted to 629-million dollars; loss of time 449-million dollars; Surgical 273-million dollars; regular Medical expense 47-million; and our latest addition — Major Medical — totaled 62-millions.

1956 figures for Pensions are not readily available; however, at the end of 1955 there were approximately 19,000 insured Pension plans, covering 4,000,000 employees. This is represented by reserves in excess of 11-billion dollars, which is expected to produce annual income at time of retirement of close to 2-billion dollars per year.

The public has demonstrated that it wants these benefits and intends to have them, If *we* do not, together, provide them, the vacuum will be filled *otherwise*. There are strong forces constantly at work advancing the philosophy that this should be a function of government. I disagree, as I feel that private enterprise has demonstrated that it can do the job better. We are joint partners in this enterprise. We must cooperate closely if we are to preserve this independence of operation.

(More on page 47)

About the Author . . .

William N. Seery was appointed Vice-President in charge of activities of the Travelers Insurance Company Group Department October 25, 1954. Mr. Seery has served as superintendent of agencies of the life, accident and group department since 1949.

He joined the Travelers in 1926 following his graduation from the Wharton School of the University of Pennsylvania. He became a member of the group service division of the home office and was later assigned to Detroit, Michigan. In 1928, he was appointed head of the field service division at Columbus, Ohio, and subsequently served in similar capacities in Philadelphia and New York City.

In 1936, he transferred to the agency department and was appointed group assistant at the Newark branch office. He was named district group supervisor there in 1928, and that same year was transferred in the same capacity to the John Street branch office in New York City.

In 1944, Mr. Seery became a general agent, life, accident and group lines for the Travelers and returned to the home office in 1949 as superintendent of group sales.

Recent New Members of ASIM

Cincinnati Chapter

The Western & Southern Life Insurance Company

Dallas-Ft. Worth Chapter

Magnolia Petroleum Company

Maryland Chapter

The E. H. Koester Baking Co.
Schmidt Baking Co., Inc.

Delaware Valley Chapter

Sun Clothes, Inc.

Insurance Buyers Association of Detroit

Allen Industries, Inc.
Verners Ginger Ale

Minnesota Chapter

Fitger Brewing Company
Wood Conversion Company

Montreal Insurance Buyers Association

Aluminum Company of Canada, Ltd.
Atlas Asbestos Company Limited
The Bell Telephone Co. of Canada
Canadian Celanese Ltd.
Canadian Industries Limited
Canadian International Paper Corporation Ltd.
Canadian Marconi Company
Canadian Pratt & Whitney Aircraft Company, Ltd.
Consolidated Paper Corporation Limited
Dominion Bridge Company Limited
Dominion Engineering Works Limited
Dominion Glass Company Limited
Dominion Textile Company Limited
Du Pont Co. of Canada (1956) Ltd.
The Foundation Co. of Canada Limited
Imperial Tobacco Co. of Canada Limited
Northern Electric Company, Limited
Rolls-Royce of Canada, Limited
The Shawinigan Water and Power Company
Steinberg's Limited

New York Chapter

American Hard Rubber Company
International Business Machines Corp.
United Cigar-Whelan Stores Corp.

Northern California Chapter

Pacific Guano Company
The Western Pacific Railroad Company

Southern California Chapter

The Garrett Corporation

Non-Chapters

CANADA — Legrade Inc.
NEW YORK — Mohasco Industries, Inc.
PENNSYLVANIA — Blaw-Knox Co.

Dr. Blanchard to Retire from Columbia University

Honorary Member of ASIM is Leading Figure in Educational, Legislative Fields

Dr. Ralph H. Blanchard

Ralph H. Blanchard, Professor of Insurance at the Graduate School of Business at Columbia University, will retire from teaching in June 1957. While he will give up his work at Columbia, he will continue his interest in insurance as Editor of the McGraw-Hill Insurance Series and as a consultant.

During recent years Mr. Blanchard as served as consultant to the Department of Defense, to the Legislative Drafting Research Fund of the Columbia School of Law in connection with its investigation of financial protection against atomic hazards, to the Bureau of Business Research of Boston University in connection with its study of insurance of commercial fishing craft, to the Aircraft Industries Association of America, and various other organizations.

Mr. Blanchard's principal contribution to insurance education has been his work as Editor of the McGraw-Hill Series, in which 18 volumes have appeared since 1924, 8 of which are still in print, and revisions of 2 of which are in press. Two new titles are expected to be published during 1957. He is co-author, with Albert H. Mowbray, of *Insurance*, one of the books in the Series widely used as a text.

Mr. Blanchard is a Fellow and past President of the Casualty Actuarial Society, past President of the American Association of University Teachers of Insurance, a director of the Insurance Society of New York, and a member of the American Economic Association, the Insurance Education Directors' Society and the American Management Association. He is an honorary Member of the Fire Underwriters Association of the Pacific, the *American Society of Insurance Management, Inc.*, and the Insurance Forum of San Francisco, and is a member of the National Panel of the American Arbitration Association.

Dr. Blanchard contributed much of his time and energy to the American Society of Insurance Management, Inc., and has been one of the foremost advocators of educational programs for corporate insurance management. For his efforts in behalf of the corporate insurance buyer and manager, he was awarded an Honorary Membership in the American Society of Insurance Management, Inc.

Upon his retirement in June from teaching at Columbia University, he will make his home in Plympton, Massachusetts.

John Bennis, SKF Industries is Director of Delaware Valley Chapter, ASIM

John Bennis, of SKF Industries, was elected to serve one year as Director of Delaware Valley Chapter, ASIM. The news of Mr. Bennis' election was received too late to have been included in the list of officers of Delaware Valley Chapter, ASIM, which appeared in the March issue.

An Omission

In commenting on a new book on "Property Insurance" by Huebner and Black, in the March issue of The National Insurance Buyer, the name of Appleton & Cox, Inc., publishers, was inadvertently omitted.

Will *your* interests abroad go up in smoke?

Could fire, lightning, explosion or wind threaten the security of your business overseas? Not if you are adequately insured through AFIA.

For AFIA specializes in fitting protection to the individual needs of your business. It also specializes in seeing that your insurance meets the exacting requirements of liability, compulsory property insurance, and other strange laws of the countries where your risks may be located.

To feel secure, be secure. Protect your overseas interests through AFIA —one of the largest and strongest organizations of its kind in the U.S.A.

AFIA

AMERICAN FOREIGN INSURANCE ASSOCIATION

161 William Street • New York 38, New York

CHICAGO OFFICE. . Insurance Exchange Building, 175 West Jackson Blvd., Chicago 4, Illinois
DALLAS OFFICE. . . . . 400 Vaughn Building, 1712 Commerce Street, Dallas 1, Texas
LOS ANGELES OFFICE. . . . . 3277 Wilshire Boulevard, Los Angeles 5, California
SAN FRANCISCO OFFICE. . Russ Building, 235 Montgomery Street, San Francisco 4, California
WASHINGTON OFFICE. . . . Woodward Building, 733 15th Street, N.W., Washington 5, D.C.

An association of 22 American capital stock fire, marine, casualty and surety insurance companies providing insurance protection in foreign lands

Insurance Surveys

(From page 16)

When merger necessitates analysis and modification of all phases of the respective insurance and loss control programs.

Let us now assume that in light of management's objectives, a comprehensive study such as I have just described is required. In that event, what criteria should be applied in selecting the firm to make it.

First, we shall assume that the firm selected has a competent staff with broad experience in handling insurance for commerce and industry and with sufficient specialization in the various types of insurance to prepare a definitive report.

You, as Group Insurance buyers, have a vital role to play where Insurance benefits result from collective bargaining. It is important that you cooperate closely with your associates in the Industrial Relations Department, and they with you. It requires team work; otherwise, monstrosities with which you cannot live will be created.

Now—how do you select a carrier; a broker; a consultant?

As far as a carrier is concerned, the sealed bid is supposedly the simple answer—presents no problems; all companies are good; all companies provide similar services; and as far back as I can remember, in grade school I was always aware of the fact that 7.8% of something produced a smaller number than 8.1%.

Having worked on both sides — one time in my career as an agent and sometimes as a consultant, and at another time as a bidder and insurance company representative — I do not subscribe to the sealed bid approach. Why? Because to do so means that we lose sight of the most important factor assuring the successful operation of any Group Insurance program; namely, *the human element—the individual.*

There have been numerous instances where the apparent low bid did not ultimately result in the low cost, and in the long run proved most expensive. I will not, at this time, explain the various gimmicks, such as the advance rating reserve, and 3 and 5-year plans, the special contingencies (with which I know some of you may be familiar), as time does not permit.

Now—What should you do? As an agent or consultant, I have found numbers to be very cold and impersonal; the printed page lifeless. What I wanted to see, and have the Employer see too, was the individual to whom we were going to entrust this important problem; what he and his company proposed to do for the money they were retaining. How did he react to our questions? Did he know his business? Did he generalize, or was he specific? Did he inspire confidence? Was he a man with whom I could work, and who could make a contribution? Was my case in good hands? Would his company understand my problems? Was it flexible or did it adhere rigidly to self-imposed underwriting rules?

As a buyer, you and your consultant or broker owe it to yourselves to hear the story first hand from the man who should know it best—the company representative himself. Service, particularly from a claims administration point of view, differs vastly; and only the company man himself can make this presentation in a concise manner.

I can assure you that as far as the difference in retentions with the major Group writing Companies is concerned, it is trivial — so with you and your broker or consultant as the judge, look your man over carefully; examine his wares; his company's facilities to serve you; and then make your decision.

We have come of age; we are big business; we have important responsibility; we are in the front lines. If insurance succumbs and is socialized, other business will follow rapidly. We have a sacred trust. If we believe in our way of life, we must not fail!

Secondly, we shall assume that this staff has experience in making surveys for organizations comparable to yours in scope. It will be apparent to you that analytical work of this type requires certain qualifications and techniques which many competent insurance people do not possess.

The firm chosen should, in our opinion, be able to test costs on a realistic basis. Rather than book knowledge, this requires familiarity with the insurance markets of the world and skill in negotiation. Present costs can be evaluated realistically only by obtaining competitive quotations. Similarly, alternative methods of coverage, however plausible they may seem, cannot be seriously considered until they have been tested in dollars and cents.

The firm you choose should have a plant safety, fleet safety, fire protection and boiler engineering staff competent to evaluate and plan loss control programs for your corporation. In addition to technical proficiency, these individuals should be trained in the administrative and educational techniques which are necessary to make loss control programs work.

In many instances, the key to reducing costs is to control losses. It is for this reason that the engineering talent which I have specified is required. It is not very helpful to say as an insurance analyst did in one report which I read that workmen's compensation costs could be reduced materially by an improved safety program. The question is *how* can the program be improved.

The firm selected should be in a position to make an impartial study—one which will not be biased toward a particular type of solution. It is conceivable that an insurance consultant, company, agent or broker might lean toward insurance, self-insurance, excess-of-loss insurance or stock or mutual company insurance.

In developing this idea, I will only say that a brokerage firm can be unbiased if it is able to draw upon its own staff for the broad range of services required by most large corporations — whether self-insured, partially self-insured or fully insured.

(More on page 30)

For what it's worth...

Insurance Aspects of Property Sale and Lease-Back

from the CLIENTS' SERVICE BULLETIN *of The* American Appraisal *Company*

Although the sale and lease-back of properties is not a recent innovation, more and more companies are recognizing its advantages. Many companies now lease, rather than own, part of their fixed assets. Under many lease-back agreements, however, the lessee bears responsibility for maintenance and protection of the property. Usually, he pays the property taxes and carries insurance.

Even where the sale is recent, the sale price may be a poor criterion on which to base the insurance coverage. Such price may reflect the economic rather than physical aspects of value and may fail to segregate the price paid for the uninsured items and land from the insured buildings and fixed equipment.

It is well to remember that most fire and other casualty losses are partial losses and present the problem of repairing and replacing the damaged or destroyed portions of the property. The standard fire insurance policy stipulates that the basis for settlement is the actual cash value *at the date of the fire*. There is little support, therefore, in referring to an over-all negotiated sale price for the entire property as of some prior date.

Furthermore, the insurance policy requires that in the event of loss the insured shall "furnish a complete inventory of the destroyed, damaged, and undamaged property, showing in detail quantities, costs, actual cash value, and amount of loss claimed." The bill of sale rarely meets these requirements. To live up to his obligations under the leasehold agreement, the lessee will need the same property records as if he owned the property. He should have revised periodic statements of cost of reproduction less depreciation. The wise lessor will insist that the lessee maintain such a record.

Semi-Annual Meeting . . .

The American Society of Insurance Management, Inc.

Emile Zola Berman

The second semi-annual meeting of ASIM was held in New York on May 7, 1957 at the Hotel Statler.

The guest speaker at the dinner meeting was Emile Zola Berman.

Mr. Berman, who will be remembered as the defense attorney for Marine Sergeant McKeon in the court martial trial at Parris Island, addressed members and guests of ASIM on "Comparative Negligence".

"Life" magazine said of him:

"The man almost single handedly responsible for getting Sergeant McKeon out of his grave trouble was Emile Zola Berman, a great trial lawyer. McKeon was charged with oppression of troops and culpable negligence leading to manslaughter. Court found him guilty only of simple negligence.

"The bulk of his trial work is concerned with accident cases but he is anything but an ambulance chaser. He represents insurance companies and property owners who are defendants in such actions as often as he pleads for injured plaintiffs. Large Law firms also employ Mr. Berman to appear for them in difficult jury cases such as General Practitioners call in a specialist in surgery for a major operation. . ."

Minnesota Chapter Holds One-Day Seminar — May 3, 1957

Minnesota Chapter, ASIM, held a one-day seminar on May 3, 1957 at the Leamington Hotel in Minneapolis.

The program — "When to Buy — How to Buy — What to Buy" was devoted to the following discussions:

Multiple Perils

Douglas L. Hail, *Chairman*, Pillsbury Mills, Inc.; Paul Mucke, *Co-Chairman*, Gamble-Skogmo, Inc.; John S. Perry, Fireman's Fund Insurance Co.; A. C. Fellows, Johnson and Higgins.

Comprehensive Group Medical

Carl O. Holmer, *Chairman*, Minnesota and Ontario Paper Company; Harold E. Towner, *Co-Chairman*, Minnesota Mining & Mfg. Co.; Robert E. Larson, Bankers Life Co., Des Moines; George V. Stennes, Actuary.

Comprehensive Liability

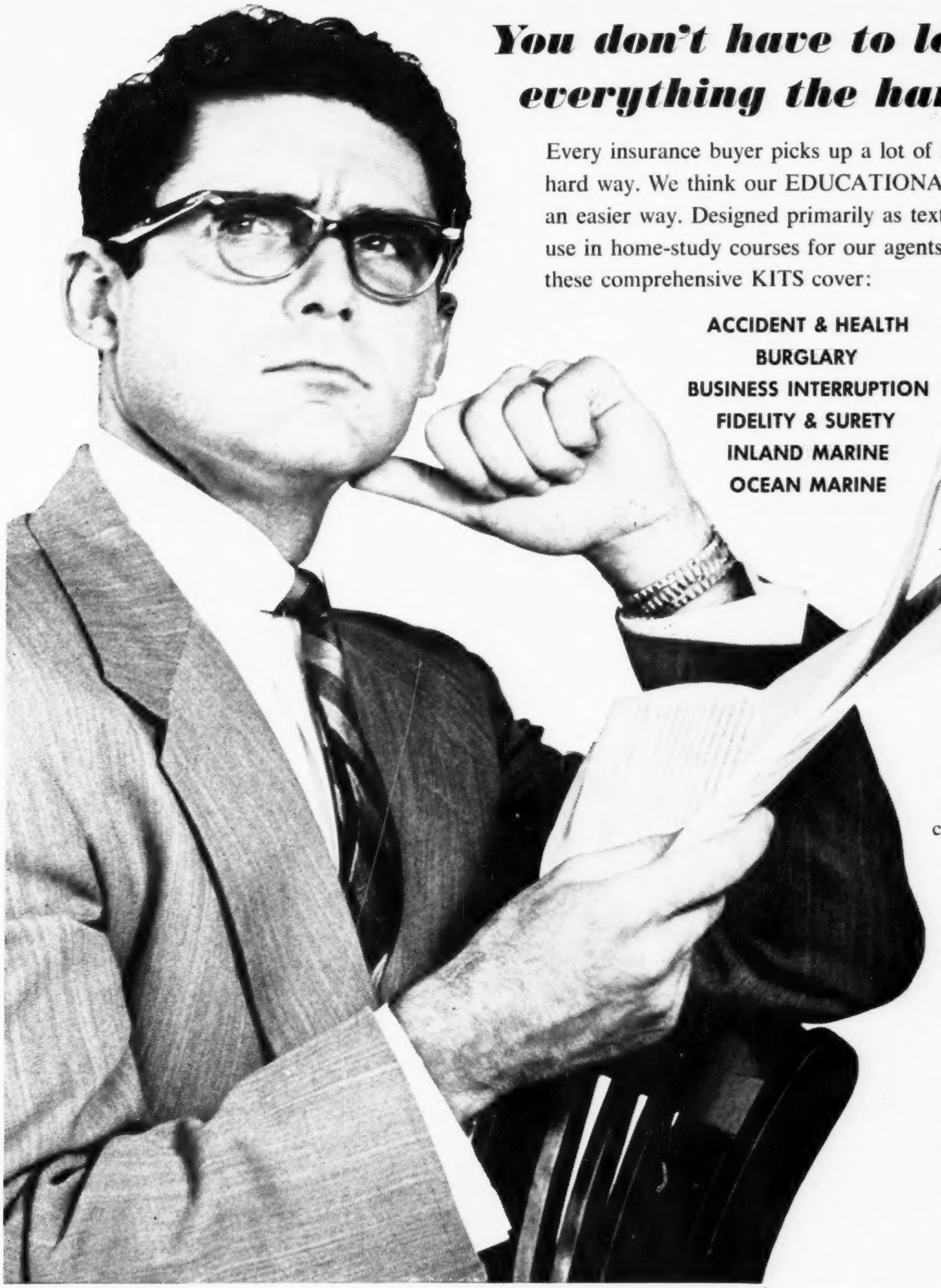
Harry L. Davis, *Chairman*, General Mills, Inc.; Frank J. Scott, *Co-Chairman*, Northwest Airlines, Inc.; James M. Regan, Marsh & McLennan, Inc.; Carl B. Drake, St. Paul Fire & Marine Ins. Co.

Workmen's Compensation

Kenneth N. Cervin, *Chairman*, Minneapolis - Moline Company; Allen D. Brosius, *Co-Chairman*, Minneapolis-Honeywell Reg. Co.; Kenneth B. Sargeant, Liberty Mutual Ins. Co.; Victor G. Lowe, Minnesota Compensation Rating Bureau.

Roy Dunlop of the Columbia, St. Paul Dispatch-Pioneer Press Company was the guest speaker at luncheon.

General Chairman was Ray F. Boettcher of George A. Hormel Company; and Program Chairman was Howard T. Weber of Minnesota Mining and Manufacturing Company.



Corporate Terms . . .

A Policy — Common substitute for good judgment.

Calculated Risk — Crap shooting on a corporate level.

Well-Rounded Program — An excuse for running off in all directions.

An Attitude of Watchful Waiting — Dignified way of doing nothing.

Take Forceful Action — Do something which should have been done a long while ago.

Taking a Long, Hard Look — A cover-up for indecision.

Merger — A form of musical chairs in which one or more executives is left without a seat.

Diversification — Out of the frying pan into the fire.

Capital Gain — The substance executive dreams are made of.

Before Taxes — Wishful thinking.

Management Prerogative — Lunch from twelve to two.

Promotion from Within — A system of moving incompetents up to a policy-making level where they can't foul up operations.

Deferred Compensation — Gone today, here tomorrow.

Under Consideration — Somewhere in that stack of papers in the bottom drawer.

Federal Reports Underwriting Profit

For the year 1956 Federal Insurance Company and its wholly-owned subsidiary, Vigilant Insurance Company, report an underwriting profit of $689,000 before Federal Income tax. This was a substantial reduction from the $5,186,000 reported for 1955 and reflected the generally unsatisfactory conditions in the multiple line insurance industry in 1956. These reported earnings were after an increase in unearned premiums of $2,905,000.

The consolidated loss ratio is reported at 59.3% to earned premiums as against 50.5% the year before and the expense ratio at 37.3% to written premiums unchanged from the year before.

These results were reported by Mr. Hendon Chubb, Chairman of the Board, and Mr. Percy Chubb 2nd, President, in the Annual Report to Stockholders just released. The annual report attributes the high loss ratios of the industry in general to "the high level of business activity with consequent pressures toward carelessness, a continuation of inflationary trends, and the failure of premium levels to keep pace with increased exposures."

The lower underwriting earnings were offset in part by an increase in net investment income with the result that total net income after Federal income tax amounted to $3,626,000 as against $5,420,000 in 1955, equal to $1.34 vs. $2.01 per share, respectively, on the 2,700,000 shares outstanding at each year end.

For Federal only, total admitted assets increased $5,345,000 to $161,164,000, surplus to policyholders increased $1,921,000 to $88,200,000, and net premiums written increased $3,534,000 to $50,856,000.

●

How good a red-hot idea is usually depends on how much heat it loses when somebody throws cold water on it.

●

Nothing encourages a man to quit work early like a boss who just did.
—O. A. Battista

●

All you have to do to make a quick fortune in America today is invent a new way for people to kill time.

DIRECTORS

HENDON CHUBB
Chubb & Son

ARTHUR M. ANDERSON

PERCY CHUBB 2ND
Chubb & Son

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Chairman of the Board
St. Joseph Lead Company

EMORY S. LAND
Vice Admiral
United States Navy (Retired)

LEWIS A. LAPHAM
President
Grace Line Inc.

NATHAN MOBLEY
Chubb & Son

EDMOND J. MORAN
President
Moran Towing & Transportation Co., Inc.

ALEXANDER C. NAGLE

J. RUSSELL PARSONS
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Howe Sound Company

FREDERICK A. O. SCHWARZ
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HOWARD C. SHEPERD
Chairman of the Board
The First National City Bank of New York

ARCHIE M. STEVENSON
Chubb & Son

LANDON K. THORNE

HAROLD T. WHITE, JR.
White, Weld & Co.

Fifty Sixth Annual Statement

December 31, 1956

ASSETS

United States Government Bonds	$ 50,616,760
All Other Bonds	24,504,220
Preferred and Guaranteed Stocks	5,636,045
Common Stocks	49,701,316
Stock of Vigilant Insurance Company	12,732,743
Cash	9,248,366
Premiums not over 90 days due	3,532,169
Other Assets	5,192,832
TOTAL ADMITTED ASSETS	$161,164,451

LIABILITIES AND SURPLUS TO POLICYHOLDERS

Unearned Premiums	$ 37,060,689
Outstanding Losses and Claims	22,441,708
Dividends Payable	1,080,000
Taxes and Expenses	3,516,117
Funds Held Under Reinsurance Treaties	3,919,124
Non-Admitted Reinsurance	4,946,524
TOTAL LIABILITIES	72,964,162
Capital Stock	10,800,000
Surplus	43,615,932
Unrealized Appreciation of Investments	33,784,357
SURPLUS TO POLICYHOLDERS	88,200,289
TOTAL	$161,164,451

Investments valued at $6,017,039 are deposited with government authorities as required by law.

FEDERAL INSURANCE COMPANY

CHUBB & SON 1882

CHUBB & SON, *Managers*
90 John Street, New York, N. Y.

Ocean and Inland Marine • Transportation • Fire and Automobile • Fidelity • Surety • Casualty
Aviation Insurance through Associated Aviation Underwriters

POSITIONS AVAILABLE

Large Manufacturer — Cleveland area. Young man, 29-32, for position in insurance department — Start salary, $5400. DA-1

PERSONNEL AVAILABLE

All Applicants Are Requested to Submit Five Copies of Resume

Young man, 30, married — good education — would like to improve his position. Now employed as assistant to Insurance Department Manager of large private corporation. (Address — ASIM - 20)

* * *

Top-Ranking Insurance Manager wishes to change position. Is currently responsible for developing and administering the insurance program of a well-known corporation. Experienced in safety programs. College degrees in Economics and Finance. Married, age: about 35. Exceptional man for exceptional position. (Address — ASIM - 29)

* * *

Insurance Manager, Age 31, married, with two children. Law degree. Eight years experience as Corporation Assistant Insurance Manager, Claims Manager and Agency Manager. Desire position as Insurance Manager or Assistant. Presently employed as Assistant Insurance Manager. (Address — ASIM - 31)

Insurance Manager or Assistant Insurance Manager. Currently assistant to Insurance Manager of large oil company. Graduate of Columbia University, Degree in Economics. Age 30. Married, Responsibilities include administering domestic and foreign policies of company and all phases of corporate insurance management. (Address — ASIM - 35)

* * *

Risk Manager. Qualified Risk Manager seeks a position in the corporate insurance field. Twenty years experience in general insurance and management. Age 37. CPCU. Currently assistant in world-wide program. Prefer midwest location but will relocate contingent upon opportunity. (Address — ASIM - 39)

* * *

Young Insurance Executive—Graduate Wharton School (Major, Insurance). Currently Assistant to the President, large New York City brokerage company. 5 years extensive experience in all phases of insurance is seeking challenge in insurance department of an eastern manufacturing or industrial company. (Address — ASIM - 41)

* * *

Fire Insurance Underwriting Manager. Age 42. Single. B.A. degree, plus portion of M.A. Nineteen years in Home Office fire experience. Desires position in corporate insurance management. Will travel, possible relocate. (Address — ASIM - 43)

Young College Graduate. B.S. (Major in Insurance and Business Administration). Possess sound training and demonstrated ability. Objective is to join insurance division of a manufacturing organization where knowledge and competence will find growth and administrative opportunities. (Address — ASIM - 44)

* * *

Insurance Manager. Age 39, married, two children. Graduate University of Illinois. Knowledge of all phases of corporate insurance management. Experience includes management for five industrial plants in U.S. and two in Canada. Will relocate, preferring Chicago, New York or San Francisco. (Address — ASIM - 45)

* * *

Insurance Manager, or Assistant. Married, two children. Age 36, graduate of St. John's University. Attended St. John's Law School. Knowledge of all phases of corporate insurance management including renewal of contracts, application of deductibles and obtaining of modifications and extension of the basic contract in order to secure the broadest coverage at minimum premium outlay. (Address — ASIM - 46)

ODE TO AN INSURANCE MANAGER

So you're the bright young fellow
Who hath within his charge,
The purchase of insurance for
A Corporation, large.

You're seeking, always seeking
For ways to cut the cost
Of coverage your folks don't want —
(Until they have a loss).

Your loss prevention program
Is brilliantly conceived,
But when you try to make it tick,
The high-priced help gets peeved.

The Treasurer complimeth,
The Secretary, too
The President, Vice Presidents
All say the heck with you.

You're not supposed to spend a buck
To buy a sprinkler head,
Or clean the elevator pit.
Just let it go, instead.

But when the fire cometh
And burneth down the plant,
They scream, "He didn't do his job,"
You bet your sainted Aunt!

So when you get to Heaven,
Don't pause to ring the bell.
Just walk right through the Pearly Gates
My Son, you've been through Hell.

H.S.G. 1957

Insurance Surveys

(From page 22)

Procedures

Next, as it is the operation with which I am most familiar, I should like to talk about the procedures followed in planning a comprehensive insurance and loss control program.

A planning operation begins with extensive field work. A team made up ordinarily of three engineers—safety, fire protection and boiler—and an insurance analyst surveys all significant locations. However, if there are many locations of the same type, normally only enough of them are visited to give a representative picture of the risk. In planning an itinerary, we try to select plants within each of the broad administrative or operating divisions of the company or if there is a wide geographical spread, plants in various parts of the country.

The purpose of each such field survey is to discover and evaluate all significant exposures to insurable loss and to evaluate fire and accident prevention programs. The survey at each location consists of physical inspections and ordinarily conferences with staff members. These conferences often provide valuable insights, particularly into loss control problems.

For a company which is decentralized, similar conferences are held with territorial or divisional staffs.

Similarly, meetings are held with various members of general management in cooperation with the insurance manager. Before giving the insurance manager some trouble, I should like to emphasize the importance of field work.

From field surveys and meetings with your staff at various levels, we endeavor to obtain detailed knowledge of all phases of your operations bearing upon insurance. We believe that the persons responsible for planning an insurance program should themselves see the operations they are to insure. It sometimes happens that the key idea for a new approach to a coverage will be developed from a fact picked up in the field which might never have occurred to us to inquire about if we had simply been sitting in the insurance manager's office asking questions.

Further, we feel that if we are to share in the responsibility for the insurance program we should know from personal observation and interrogation about such things as:

The extent to which plant operations are interdependent;

Whether there really are dual sources of supply for important components;

What are the peak values of property in transit;

What object should be insured under the boiler and machinery policy in light of the insured's own maintenance program;

Which are the key boiler and machinery objects and are there standbys for them;

What special liability hazards are there, such as stream or air pollution, company-operated railroads or docks and what is the actual extent of those hazards.

It is also very useful when presenting your risk to underwriters to have a first-hand knowledge of it. More frequently than not, such knowledge can result in a greater credit in your rate than the bare experience would seem to justify.

Getting back to the insurance manager, it is at this point in the survey, when the field work is completed, that he will have a considerable amount of work to do. An insurance survey is a two-way street. Its value depends to a considerable extent on the completeness of the underwriting data supplied by the insurance manager.

Some of the more important data required are property damage and business interruption values; schedule of automotive units; payrolls; personnel data and detailed loss data over a period sufficient to reflect any significant loss patterns.

When the required underwriting data has been submitted to us, it is evaluated, along with the first-hand information which we have gained in the field, by our Research and Planning Division in collaboration with our own engineers and underwriters in all the various fields of insurance. Practical and theoretical maximum loss estimates are made. Consideration is given to whether particular types of loss can be controlled or whether with the present claims administration and loss control program they are likely to fluctuate out of hand. If that seems to be the case, an estimate is made as to whether with methods, losses could be brought under better control. Based upon our combined evaluation of risk, we determine these and other questions, such as adequacy of limit and need for special coverages.

The next step in our planning procedure is design of a hypothetical insurance program. First, a philosphy of insurance must be developed consistent with the financial and operating facts of your company. The formulaton of this philosophy begins with analysis of your company's balance sheet and income account. Working capital is a major consideration in determining a company's ability to assume risk, self-insure or partially self-insure. Financial and legal commitments must also be carefully reviewed. From analysis of these and other factors, it can be generally determined whether your company is in a position to self-insure certain risks other than those with a catastrophe potential. For some companies, full coverage is indicated. For others, it is a question of degree—

how large should the retention be?

should loss of a given type be averaged by insurance or stopped in the aggregate?

should a decidedly remote risk but one of substantial proportions be insured? etc.

All of the alternative approaches to the insurance problems in question are considered systematically within the framework of the philosophy developed for your company.

Any alternatives which appear promising involving insurance or reinsurance are tested by obtaining actual quotations. At the same time, quotations are obtained on all coverages except those few which may be rated strictly by the book.

The end product is a consistent and integrated insurance program which is practical administratively

(More on page 37)

COMMERCIAL UNION-OCEAN GROUP

OF INSURANCE COMPANIES

A Bulwark of Protection

ANCHORA SALUTIS

For many years, the companies of the Commercial Union - Ocean Group have featured the phrase "A Bulwark of Protection" in describing their financial resources and prompt loss settlements • It is interesting to note that this phrase is an excellent free English translation of the motto of the Commercial Union Assurance Co., "Anchora Salutis." To the Romans, "Anchora" primarily meant an arrangement of timber to hold a dam fast — in other words, a Bulwark. "Salutis" in Latin meant a means of promoting a beneficial outcome. What better way to sum this up than with the single word, "Protection"? • "Anchora Salutis"—"A Bulwark of Protection," has been an honest motto, because by maintaining unquestioned financial strength in conjunction with integrity, sound management and unexcelled insurance protection service, the Commercial Union - Ocean Group keeps faith with the insuring public, which we are proud to serve, and with our agents and brokers conveniently located from Coast to Coast. Our Resourses Statement below is our best proof.

Fire • Casualty • Automobile • Aviation • Marine • Bonds

United States Resources - December 31, 1956

COMPANIES OF THE COMMERCIAL UNION-OCEAN GROUP	*ADMITTED ASSETS	LIABILITIES	CAPITAL OR STATUTORY DEPOSIT	SECURITIES DEPOSITED AS REQUIRED BY LAW	SURPLUS TO POLICYHOLDERS (Including Capital)	
					ANNUAL STATEMENT BASIS	MARKET VALUE BASIS
Commercial Union Assurance Co. Ltd. † ORGANIZED 1861	$34,211,630	$19,810,928	$ 500,000	$ 1,186,289	$14,400,702	$13,502,956
The Ocean Accident & Guarantee Corp. Ltd. † ORGANIZED 1871	42,190,759	28,821,379	850,000	1,266,120	13,369,380	12,173,881
American Central Insurance Company ORGANIZED 1853	16,842,217	8,563,021	1,000,000	931,550	8,279,196	7,750,325
The British General Insurance Co. Ltd. † ORGANIZED 1904	3,833,120	1,230,145	500,000	880,244	2,602,975	2,452,838
The California Insurance Company ORGANIZED 1864	9,919,932	5,421,876	1,000,000	982,897	4,498,056	4,205,916
Columbia Casualty Company ORGANIZED 1920	23,324,807	15,381,483	1,000,000	933,307	7,943,324	7,244,309
The Commercial Union Fire Ins. Co. of N.Y. ORGANIZED 1890	7,958,963	4,149,698	1,000,000	452,057	3,809,265	3,561,111
The Palatine Insurance Company Ltd. † ORGANIZED 1886	6,335,751	2,962,065	500,000	1,057,800	3,373,686	3,178,738
Union Assurance Society Limited † ORGANIZED 1714	5,951,579	2,871,977	500,000	1,069,008	3,079,602	2,906,264

† United States Branch — The Amount shown under "Capital or Statutory Deposit" is the amount required in order to transact business in the United States.
* Includes Securities Deposited as required by Law.

HEAD OFFICE
ONE PARK AVENUE — NEW YORK, N. Y.

CAPITAL STOCK COMPANY INSURANCE — Standard protection

ATLANTA — CHICAGO — SAN FRANCISCO

Multiple Line

(From page 5)

of the 1944 recommendations of the Committee on Multiple Line Underwriting of the National Association of Insurance Commissioners. That Committee, headed by John A. Diemand, president of the Insurance Company of North America, included representatives of every phase of the business of insurance. Yet, its recommendations were not immediately accepted by the Insurance Industry at large. Heavy attacks were made upon the 1944 "Diemand Report" at the time of its publication, but the leading insurer associations later took the more judicious position of neither opposing or favoring either the report or legislation based on the Committee's findings. Nevertheless, despite a relatively calm exterior, parts of the Industry acted in fullest opposition to what it called the "revolutionary" changes proposed by the buyers' Institute, last year.

A spokesman, claiming to represent "a majority of the capital stock fire insurance companies," told the 1946 Insurance Committees of the New York Legislatiure there was "no informed public demand" for such simplification and broadening of policies and practices. Agents' organizations also opposed the program. On the other hand, the New York Insurance Department and prominent carrier, broker, and trade association representatives endorsed the Institute's requests, both this year and last. At the 1946 hearing, W. Winthrop Clement, Executive Secretary of Risk Research Institue, spearheaded a program of proponents which included Charles P. Butler, Insurance Company of North America counsel; William Butler, U. S. Casualty Company; W. F. Delaney Jr., then with American International Underwriters Corp., and now with Fairfield & Ellis; B. M. Harris, Executive Secretary of the Insurance Brokers' Association of New York; F. J. Marryott, Liberty Mutual Insurance Company counsel; W. E. McKell, Vice President, American Surety Company; G. H. Ort, Secretary, National Association of Insurance Brokers; Alfred Rothschild speaking for the New York Credit Men's Association; John M. Train, president of Utica Mutual Insurance Company; William D. Winter, Chairman of the Board, Atlantic Mutual Insurance Company and affiliates.

Supt. Robert E. Dineen of New York also supported the "Personal Property Floater" and reinsurance bills, at that time, although he asked for a delay on the automobile, aircraft, and overseas risk proposals. At the legislative hearing on March 5, 1947, these three

proposals had virtually the same galaxy of proponents as in 1946, but no opposition was expressed from any quarter.

The effect of this New York legislation upon the laws of other States derives from New York's singular "Appleton Rule." This edict of an Insurance Department employee, originally handed down about 25 years ago, was embodied in the New York Law when the Insurance Code was revised in 1938. While its principle may be entirely sound, its effect has often been quite the opposite. In substance, the provision of this ruling is that the Superintendent may refuse to grant or renew the New York license of any insurer, unless, "in the judgement of the Superintendent," the way the insurer does business in any place "will not be prejudicial to the best interests of the people of this State" (New York).

For a quarter of a century this "Rule" has prevented many insurers using the charter powers granted them by their home governments. Anxious to retain cordial relations — and their licenses — in New York, insurers have even voluntarily changed their charters to conform to the New York pattern. While it seems doubtful that any company would do so, threats have been made to test the "Appleton Rule" in court, as a restraint upon commerce. Whether for this reason or otherwise, Superintendent Dineen "relaxed" the rule in 1945, upon demand of a Casualty company for the right to use its Massachusetts charter power to write the "Personal Property Floater" outside New York State. Following that "relaxation" Mr. Dineen encouraged, in the 1946 Legislature, a "PPF" bill sponsored by New York casualty companies, which was finally merged with the Risk Research proposal. In 1947, the Superintendent sponsored a bill of his own, permitting full automobile coverage by casualty companies. This measure was set aside, however, in favor of the Institute's broader bill, which also included the aircraft provisions already mentioned.

In the past twelve months, members of the New York Insurance Department have been making an international study of multi-line practices and procedures in other jurisdictions. When completed, that survey should present a wealth of data vital to sound determination of the merits and problems of complete, across-the-board, multiple line underwriting — the next logical step toward the apparent aim of Risk Research Institute to obtain for the buying public simple, economical, "package policy" insurance.

Corporate Insurance

(From page 6)

plants was shut down, the production could be distributed to one or more of the other plants without too much trouble, and at slight increase in production cost. This insurance manager rearranged his coverage by getting a Contingent Business Interruption policy on the raw material supplier's plant, and some extra expense insurance on his own plants. The result — a sizable premium savings and more realistic coverage for his firm. I doubt if it is necessary for anyone to tell the officers of this company that their insurance manager is entitled to professional status.

Secondly, an insurance manager worthy of the name should know the insurance business. He need not be an expert on all lines but he should have a good working knowledge of the lines in which he deals. It's not a sin to not know, but it is a sin to know you do not know and not do something about it. The insurance manger who refuses to learn and expects his agent or broker to educate him is due to end up a policy renewal clerk or errand boy. The most discouraging problem confronting insurance companies and agents is to come up against an arrogant insurance manager who tries to make people think he is an expert, when in truth he hasn't taken the trouble to acquaint himself with a few fundamentals.

By way of clarification, let me hasten to explain that no one expects any of us to be experts in every branch of insurance. Our work is too varied, if we do it right, to permit us to delve too deeply into all aspects. When we function properly we must know a little understanding, a little claim adjusting, accounting, loss prevention, to name just a few.

To those of you who are part time Insurance Managers, a special comment is in order. Don't let my words give the impression that the mere fact you haven't spent many years in the business, or that because your duties involve other things besides insurance, you should throw in the towel or give up in despair. There certainly is a place for those of you who are "part timers." Some fine insurance programs have been set up and creditable jobs of administration have been done by people in smaller and medium sized companies. I know of two instances where men have succeeded to executive officer positions in their companies and they give credit to the fact that the opportunities afforded through insurance activities brought about the additional recognition.

By learning some fundamentals they learned how to ask questions, and seek answers. Attendance at conferences such as this and membership in your local association is the best way I know to expose yourself the easy method to a basic education in the business. Find a good agent or put your confidence in him, ask him many questions and you will be surprised how valuable you will become to your own company.

The capable insurance manager of today realizes that the responsibilities of his position require him not only to tell his top management when to insure but also when not to insure. He has or will educate his management in a risk philosophy that will let them understand that prudent business men today find it practical to assume certain risks for their own account, particularly when such self assumption will not place the assets of his company in major jeopardy. Good insurance companies and experienced agents are the first to admit that it's neither practical or sound to attempt to have a policy for every hazard, regardless of how minor.

As an illustration, an insurance company man recently recited an instance where he was requested to quote rates for Comprehensive and $50.00 Deductible Collision on a passenger car fleet of almost two thousand cars. This underwriter's analysis was that the spread of the risk was so great there was no constant major exposure, and the insurance company's adjustment service couldn't contribute too much as the Automotive Department of the insured supervised repairs. He made a logical deduction that if this was to be insured, it should only be on the basis of an Excess policy protecting against a catastrophy loss. To do otherwise would end up with a situation whereby what was good for the insurance company would not be economical for the insured or vice versa. Most far sighted insurance managers today give consideration to application of deductibles and self insurance when feasible. They have saved premium dollars in so doing and also eliminated many headaches for the insurance company.

The top Corporate Insurance Manager of today is aware that a code of ethics applies on his side of the fence as well as the other.

He is aware that legitimate competition is healthy for all, but to be known as a rate chiseler is another thing.

He realizes competent agents and brokers are his best friend, and he is theirs. He conducts himself and his activities in such a manner to command the wholesome respect of his agents and his companies. He knows that when he is in the "driver's seat," is the best time to win friends and establish confidence, for all roads have turns and today's prize risk may be tomorrow's homeless orphan.

He never submits false information or misleads the insurance companies. He rides for the long pull with his companies, but at the same time keeps an alert ear to insurance market trends. He isn't a perennial rate shopper but isn't afraid to change if he isn't being treated fairly. He rewards good service and points up bad service. The alert Corporate Insurance Manager isn't afraid to fight for what he is convinced is right. When he is fighting, he is sure of his facts, and he talks facts. He distinguishes between "belly aching" or "cry baby tactics" and persevering of a sincere mission. Lastly, he wins his fight and makes friends doing it.

Today's successful Insurance Manager is a dynamic resourceful thinker, who is seeking new ways to do things. He is not governed by crusty shopworn convention. He demands his policies be tailored to his corporation's business activities, and does not let the business conform to the policies. If what he

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Corporate Insurance

(From page 34)

needs is not readily available, he seeks, questions, learns, and finds. In this connection, permit me to pass on a word of advice to you agents and brokers. In times past there has arisen the false conception that Corporation Insurance Manager and the insurance companies should never meet in direct contact. Some have said this was because the agent feared his importance would be lessened. Others said the Insurance Manager might say the wrong thing. I am inclined to believe it was merely an old tradition that is outmoded. As each day passes, I am firmly convinced that on major placements it is more important than ever that reasonably frequent contacts be arranged by the agents with insurance underwriters and his clients. I heard of a deal last month that illustrates my point. A particular risk had been shopped all over the street by various and sundry agents. No insurance company would touch it. An alert and aggressive agent decided to get some insurance company people and the client together and have a face-to-face discussion. The agent and the insurance manager prepared themselves for the conference and went armed with full facts. When everything had been put out on the table, the insurance companies awakened to the fact that their previous apprehensions were unfounded. The insured was convinced his risk was worth a premium and not a rate. Result: A nice risk for the insurance companies, a good commission for the agent, and a void filled in a Corporate Insurance Program.

We Insurance Managers sometimes, I think, lose sight of the fact that we have some responsibilities in this vast business, particularly in the public relations field. We have a great stake in this business.

Let us be sure that our employers, and the general public as well, have a reasonable idea how an insurance company operates. Most insurance companies want to pay just claims fairly and promptly. The chiselers are few and far between. Most insurance companies don't want to, and don't have to, make huge profit percentages. For the most part, the insuring public makes their own rates. Unrealistic loss payments make for fabulous rates. Fantastic jury awards find their way back in our premiums.

The theory of insurance is basically a simple one. It's a fine business and a great enterprise. The insurance companies have long neglected their public relations activities, and it behooves us to join with the agents and brokers to further awaken them to their own problems. Somehow many of them still think a published financial statement in one of the trade papers will bring tears of gratitude to the forgotten man, John J. Policyholder. Some of the insurance companies are beginning to arouse from their sound slumber, but many are still stumbling around blindly in a sandstorm of confusion wearing snow shoes.

Tomorrow's Insurance Manager

Tomorrow's Corporate Insurance Manager is going to be faced with

(More on page 36)

Corporate Insurance

(From page 35)

many new and challenging problems. These problems will be the outgrowth of nuclear power. The use of radiation in food processing. Electronics in manufacturing. Speed and ease of communication will have today's small regional manufacturer a world-wide operator. If you think you have problems with the Texas Workmen's Compensation Law, wait until you digest that one in the Belgian Congo.

If some of you think you are having problems with coverage on company owned aircraft, just wait — I can now officially inform you that fleet rates, and Comprehensive Policy forms will not be immediately available on your firm's guided missiles, nor will the All States Compensation endorsement apply to the crew.

With the advent of new exposures we must have new coverages. The block policies of today will be broadened and simplified. The Comprehensive policy of today will be a restricted form compared with what will be needed tomorrow. Coverages will be further consolidated into one policy.

The whole underwriting concept as known today will by necessity be scrapped.

It will be our responsibility as representatives of the buying public to see that the insurance companies do not drag their feet in the transitionary period. Visionary thinking is needed more today than ever. Had it not been for the constant prodding by Insurance Managers and agents with a few aggressive insurance company people listening, we would not have what we do today.

A good example is Comprehensive Medical Plans, which has been discussed here this afternoon. As late as 7 years ago, I saw an article by one of the top men of a major group writing company, and he stated in effect that catastrophy medical could not be written because it wasn't based on sound underwriting philosophy. I wonder what this man says today, as I was recently solicited by a representative of that same company who claimed their plan was the best and broadest of any one on the market.

Recently I same across an old trade paper and in it was an article about the possibility of all risk personal property floaters becoming available. The tenor of the article was that any reputable insurance man who was even thinking about such a wild dream was guilty of treason to the industry and should be branded as an outlaw.

I mention these examples to emphasize that we are facing the same problems today. Some of the advances that must be made are no more extreme than those of yesteryear. The changes will only come about if you and I and our good agency friends push, argue, and demand them.

If we Corporate Insurance Managers want professional status, we must earn it. There is no place for bush league thinking or conduct. Tomorrow we must be truly dynamic, for tomorrow is here — it's today.

ASIM

Speaking of professionals and professional status, I think it appropriate before closing to speak of our Corporate Insurance Managers' organization known as the American Society of Insurance Management, Inc.

The American Society of Insurance Management, Inc., is a young organization a little over five years old. A small group of farsighted men realized that people in our line of work had need for common association where we could discuss our problems and work towards common goals much as the agency and company people do.

They were also aware that if we were going to obtain professional recognition it could only be accomplished through the prestige of a national organization. The formation of local study groups was not the answer.

Today we do have a national organization with some 15 Chapters in principal cities. There are three or four new Chapters in process of formation. Our membership roster now totals approximately 1500 firms and reads like a Who's Who of American Business. This without any membership drive on our part as it is not our purpose to be big for bigness sake.

Our magazine, The National Insurance Buyer, published by our headquarters in New York, is acknowledged to be a top grade professional publication. It is, of course, available with membership, but can also be obtained by insurance company and agency people on an independent subscription basis.

Our local Chapters are making a valuable contribution in their respective communities. We are proud of their accomplishments in making better insurance administrators of their members. We owe a debt of gratitude to our many agent and broker friends who have been instrumental in directing some of their clients to us. To those of you out there that may have clients who could benefit from our organization, I urge you to tell them about us.

You will like us for what we can do for them and they will be eternally grateful to you.

As 1st Vice President of ASIM, I would like to close with a particular tribute to the Houston Area Insurance Buyers Association. The national organization is proud of you and the things you have done. Your Chapter is a pioneer in these Buyers Conferences. This one today, in my opinion, was an outstanding success. Your committee and officers deserve congratulations. I am honored to have been invited and hope I will be privileged to come again.

I have told you what I think are some of the attributes of a professional Corporate Insurance Manage. I hope none of you got the impression that I think I am that man. I only ask that you do as I say; not as I do.

(Speech before Houston Area Insurance Buyers Association Conference. April 10, 1957.)

The kind of executive timber that becomes dead wood is a man with a chip on his shoulder.

A needed invention in America today is some kind of dough that really sticks to your fingers.

All you have to do to appreciate the value of hard work is hire somebody to do some for you.

Insurance Surveys

(From page 30)

and develops a minimum cost over a period of years.

The next phase of the planning process is comparison of the existing insurance program with the hypothetical program both from the standpoint of coverage and cost. This involves detailed analysis of all policies. When we believe that coverages should be added or deleted or a radical change made in approach, we specify how the existing program should be modified to accomplish the objectives, whether they be immediate or long term.

Because the most effective means of minimizing insurance costs over a period of years is to minimize losses, stress is placed in our planning upon loss control and prevention. Three of the elements of loss control which are examined are the safety program, fire prevention and protection program and procedures for minimizing liabilities, contingent upon the activities of others, through proper drawing of contracts and administration.

Some of the focal points of our studies of these programs and procedures are:

Safety:

Evaluation of the part played in the safety program by:

- General management;
- Plant management;
- Safety department;
- Foremen.

Evaluation of the organization of safety activities and management's controls with respect to them.

Evaluation of actual performance on a company-wide basis and of co-ordination of the safety program.

Evaluation of:

- Procedures for accident investigation and analysis;
- Plant inspection procedures;
- Safety standards and rules;
- Safety educational methods;
- Control of workmen's compensation medical costs.

Fire Prevention and Protection:

Evaluation of the part played in the program by:

- General management;
- Plant managements;
- Fire chiefs.

Evaluation of the organization of fire prevention and protection activities and management's controls with respect to them.

Evaluation of actual performance on a company-wide basis and co-ordination of the program.

Fire Prevention:

Evaluation of:

- Standards and rules of fire prevention;
- Inspection procedures;
- Educational methods;
- Long range plans for improvement of properties.

Fire Prevention:

Evaluation of:

- Standards for application and maintenance of fire protection equipment;
- Fire fighting facilities including water supply systems and maintenance of same;
- Watch service and automatic fire detection systems;
- Fire brigade and disaster plans;
- Cooperation obtained from pub- fire departments.

Drawing and Administration of Contracts:

Evaluation of:

Procedures for controlling acceptance and avoidance of liability, and requiring insurance of independent contractors doing work in behalf of your company. The type of contracts involved include leases and construction, maintenance, service, purchase and trucking agreements.

When all of these insurance and loss control studies have been completed and the conclusions written, you as insurance manager will be faced with the problem of evaluating, assimilating and obtaining decisions on the part of management with respect to what ordinarily is a comprehensive set of recommendations contained in a lengthy report. To make your job easier, it is important that the report submitted be well written in English rather than insurance jargon and particularly that it contain a summary for top management.

"Rules of the Road"

I should like to suggest some "Rules of the Road." Insurance surveys ordinarily are competitive

(More on page 46)

Variable Annuities

(From page 8)

This Harvard faculty group, which included several economists — Sumner Slichter and Seymour Harris among them — concluded that there was a better course than simply increasing the contribution for fixed-dollar retirement annuities They were convinced that, in our economy, it is very unlikely that a satisfactory long-range retirement plan can be based solely on fixed-dollar investments — such as bonds and mortgages — which are required by the very nature of the guarantees under a traditional fixed-dollar retirement annuity. They, therefore, suggested that a better course would be to put part of their contributions into the Harvard Endowment Fund which had been invested to a very substantial extent in common stocks. In 1950, the Harvard retirement plan was so amended.

Shortly after this study, TIAA made a very thorough study of long-term savings for retirement purposes, published in 1951 as "A New Approach to Retirement Income."

The TIAA group computed, for each of various representative periods between 1880 and 1950, the results of funding retirement benefits in fixed-dollar obligations such as are found in a typical life insurance company portfolio. They also computed the results of funding in a well diversified common stock fund, with retirement income provided in the form of a variable life annuity—that is, an annuity paying a specific number of units per year but with the value of the units varying with the market value and yield of the common stock fund.

The conclusions at which TIAA arrived may be summarized as follows:

(1) It is unwise to commit all of one's retirement savings to fixed dollar obligations since a drop in the purchasing power of the dollar can seriously reduce the value of a fixed income annuity.

(2) However, variations in prices of common stocks are much too pronounced to pemit full reliance on them for the stable income needed during retirement. So, it is equally unwise to commit all of one's retirement savings to equity investments.

(3) But contributions to a retirement plan invested partly in debt obligations and partly in a common stock fund, providing variable life annuities, offer promise of supplying retirement income that is at once reasonably free from violent fluctuations in amount and from serious depreciation because of price level changes.

(4) Most of the difficulties in individual investment in equities arise from lack of diversification, both among shares and over time. So long as the period of regular payments into a fund invested in common stock is reasonably long, so long as each person owns a portion of a large, well-diversified fund, and so long as there are no substantial shifts either into or out of equities at a particular moment, the experience is normally considerably better than that of a fund invested wholly or principally in debt obligations.

(5) Further, when continuing periodic payments are to be made into the equities fund over a reasonably long period of years, the level of common stock prices at the time the payments are started is relatively unimportant. Likewise, the retirement date is unimportant if the individual elects to purchase a variable annuity with the equities fund accumulations and a traditional annuity with the fixed dollar accumulations.

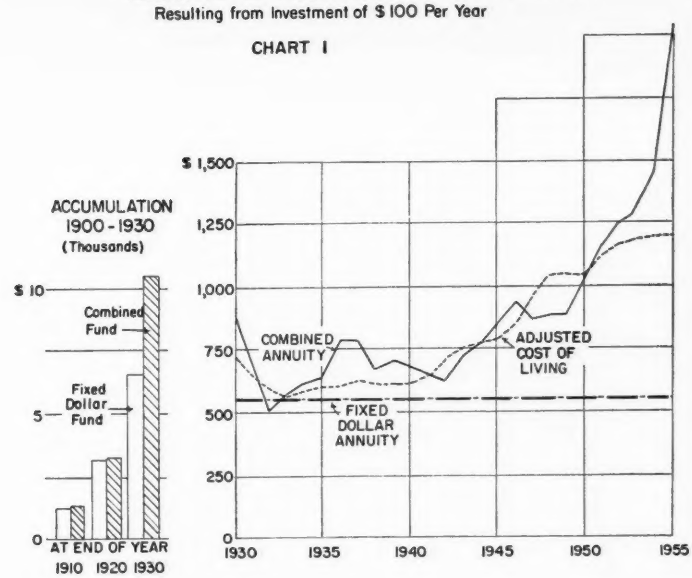
Perhaps a better appreciation of the significance of these conclusions can be gained from a look at a graphical presentation of some of the TIAA data and computations.

(See opposite page)

AMOUNTS OF ACCUMULATION AND ANNUITY

Resulting from Investment of $ 100 Per Year

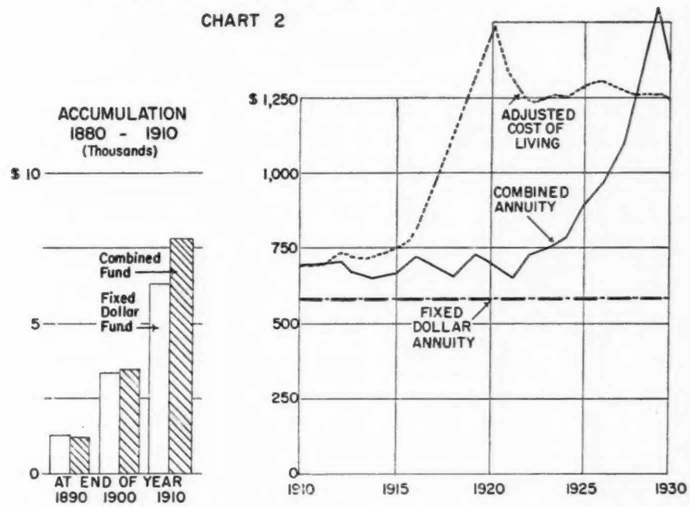
CHART 1



AMOUNTS OF ACCUMULATION AND ANNUITY

Resulting from Investment of $100 Per Year

CHART 2



Both charts are based upon actual historical experience—that is, upon the results which retirement funds would have realized in past periods. The method of computation is taken from the pioneering study of the Teachers Insurance and Annuity Association, *A New Approach to Retirement Income.*

The actual historical series and assumptions underlying the calculations are as follows:

1. *Cost of Living Index* — U. S. Bureau of Labor Statistics, covering all items for moderate income families in large cities.
2. *Common Stock Price Index* — Cowles Commission All Stock Price Index chained in 1938 to the Standard & Poor's Composite Stock price Index.
3. *Common Stock Net Yields* — Cowles Commission Index chained in 1938 to Standard & Poor's data on yields. Investment expense of ¼ to 1% assumed.
4. *Fixed Dollar Annuity Net Interest Rate* — Net yields earned by life companies as computed by the Institute of Life Insurance.
5. *Mortality* — Annuity mortality as experienced in the 1930's.
6. *Expenses* — 4% of each premium deducted annually. (This is the assumption used in the TIAA study. A different expense assumption, uniformly applied, would not materially affect the relationship between the benefits provided by the two types of annuity.)

Each year shown extends from July 1 to June 30 of the following year.

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Variable Annuities

(From page 39)

Chart 1 shows the result of assuming that an individual had started in 1900 at age 35, setting aside $100 a year for retirement at age 65 in 1930, and follows him for 25 years after retirement until 1955. The results during the accumulation period of 30 years are represented by the bars on the left, comparing how much he would have accumulated at the end of 10, 20 and 30 years in a fixed dollar fund (in which his entire $100 per year was invested in a typical life insurance company portfolio) and in a combined fund (in which $50 per year was put into a fixed dollar fund and $50 per year into an equities fund). You can see that, for the period 1900 to 1930, the two are close together at the end of 10 and 20 years, but the combined fund is much greater at the end of 30.

The right hand side of the chart shows the following: The horizontal line is the amount of fixed dollar life annuity which could have been provided in 1930 by the money in the fixed dollar fund. The solid line is the amount of combined income resulting from providing a fixed dollar annuity with the fixed dollar part of the combined fund and a variable annuity with the equities part of the combined fund. The dashed line is income under a theoretical annuity resulting from annual contributions of $100, adjusting to changes in the cost of living index from 1900 on. You will note that even though the annuitant retired right after the peak of the speculative period culminating in 1929, the 1932 low in the stock market causes combined income to dip only moderately under the income from a fixed dollar annuity, and that combined income recovered in 1933 and was above the fixed income for the rest of the period. This indicates the importance of continuing investment in the common stock fund in both good times and bad, year after year, riding up as well as down with the market and obtaining the long run advantages of dollar cost averaging in common stocks. It is also interesting to note how closely the income from the combined annuity follows the adjusted cost of living.

Of course, this doesn't always happen. For example, look at Chart 2. This chart is based on an accumulation period from 1880 to 1910 with an annuity paid from 1910 to 1930. You can see that although the combined annuity is above the fixed annuity all the way, it was almost 10 years late in catching up with the rise in the cost of living.

Obviously, from the point of view of the annuitant who was trying to make ends meet during these periods, the fixed dollar annuity left his standard of living anything but fixed. In addition, we can see that variable annuities cannot be guaranteed to maintain an annuitant's standard of living. However, when they are employed in proper balance with fixed-income annuities, they do seem to do a much more satisfactory job than the only form of annuity which we are able to offer today.

These periods are only two of the many studied by TIAA. They also studied accumulations starting in other years, accumulations of 20 and 10 as well as 30 years, accumulation periods whose terminations coincided with historic stock market lows, and accumulations of amounts determined as a percentage of earnings rather than of a flat contribution per year. The result was the set of general conclusions which we covered a few minutes ago, which can be summed up by saying that to be truly conservative and hedge against the risks of both inflation and deflation, annuity funding should be split between fixed dollar investments and equities, so long as the equities funding is diversified not only in terms of what securities are purchased, but also in the time of purchase and the time of sale.

TIAA followed up their study by establishing, on July 1, 1952, a companion organization known as College Retirement Equities Fund—CREF. Teachers who are funding their retirement in TIAA may now elect that ¼, ⅓ or ½ of their total premium be deposited in CREF to purchase a variable annuity. 90% of the college professors and teachers participating have voluntarily elected to have the maximum permissible portion of 50% paid into the variable plan.

In addition, a number of employers have set up uninsured retirement plans for their employees, using the variable annuity principle. Among these are Long Island Lighting Corporation, Chemstrand Corporation, Panagra Airlines, Kidder, Peabody and Company, Boeing Aircraft Company and the Carnegie Institution of Washington.

I mention the Carnegie Institution particularly because I want to quote from a statement of their then president, Dr. Vannevar Bush, in a recent annual report of that organization:

"The fact is that there is no such thing as absolute security. There is no investment without risk. No system, no formula, can guarantee that individual savings will provide at some future date an assured standard of living. The best that can be done is to balance risks in accordance with the judgment of wise and seasoned men, using history as a guide and modifying the lessons of history by sober estimates of current trends and future prospects.

"If one could depend upon history repeating itself, the problems would be relatively simple. For the financial history of the past 80 years contains clear lessons. A retirement plan based entirely on equities, supported by contributions of reasonable amounts in relation to salaries, would have provided a real post-retirement income adequate for a dignified standard of living if carried on over 30-year periods of those 80 years. A plan based entirely on dollars would not have done so. A retirement plan based half on equities and half on bonds would have come closer to providing an invariant real income after retirement than one based on bonds alone. History is the best guide we have, but we cannot be sure it will repeat itself, even in its major features. To accept it absolutely would be

naive, but to disregard it would be shortsighted indeed."

Now, I should like to discuss more specifically how the variable annuity concept might work under a qualified employer pension plan. Let us presume that we have a conventional pension plan under which a deferred annuity of $10.00 a month beginning at age 65 is purchased during each year of active employment and that it is decided to improve the plan by using an equal amount of purchase money to buy deferred variable benefits to begin at the same age.

Under the conventional plan, the value of the benefits is expressed in terms of dollars of monthly income. For example, after 5 years, we will have purchased for an employee a deferred income of $50.00 per month. Under the variable plan, the deferred benefits are described in terms of the number of variable annuity units which will be payable each month. If, for example, the value of a variable annuity unit at a given time is $2.00, the premium or consideration which will purchase $10 per month income under the conventional plan, will purchase an income of 5 units per month under the variable plan. The value of each such unit, which is $2.00 at the time of purchase, will then vary from period to period, both before and after retirement, on the basis provided by the contract. The variance prior to retirement will determine the number of units purchased in each period. The variance at and after retirement will determine the number of dollars of income provided each month by the aggregate number of units purchased during active employment.

The following table illustrates how this procedure might work over a period of several years of active employment:

Year	Fixed Benefit	Value of a Variable Annuity Unit	Number of Units Purchased	Aggregate Number of Units Purchased	Present Value of Aggregate Units
1	$10.00	$2.00	5.00	5.00	$10.00
2	10.00	2.10	4.76	9.76	20.50
3	10.00	1.95	5.13	14.89	29.04
4	10.00	2.08	4.81	19.70	40.98
5	10.00	2.30	4.35	24.05	55.32

Let us suppose that after 20 years of active employment, our employee reaches retirement with an aggregate of 92 units to his credit. Then his income, in dollars, from the variable plan will be determined as shown in the following table:

Month	Number of Units	Value of a Variable Annuity Unit	Dollar Income
1	92	$2.90	$266.80
2	92	2.89	265.88
3	92	2.92	268.64
4	92	3.03	278.76
5	92	3.01	276.92

You will note that the number of units payable each month does not vary, but that the variable annuity unit value (and, hence, the dollar income) does vary. Of course, under our assumed set of circumstances, these amounts are payable in addition to the fixed income under the conventional plan.

Up to now, I have talked about the variance in the value of a variable annuity unit, without discussing how or why it varies. There are essentially three experience factors which can be considered in determining the variation of the unit value: mortality, expense and investment experience. In the case of CREF, for example, all three are considered. Other variable plans operate on the same basis, or consider both mortality and investment experience,

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their customer or landlord alone is legally responsible, they should realize that they have assumed an unlimited obligation with serious potentialities.

When the dangers inherent in this practice are recognized, one can only wonder why any well managed concern would knowingly become an indemnitor under a "hold harmless" clause. Perhaps the answer is that, being usually the seller, the indemnitor has no alternative but to accept the buyer's terms or lose the order, unless the buyer can be persuaded to modify the terms.

On the other hand, it is even more amazing that a buyer or landlord should attach any value to the protection afforded by "hold harmless" clauses running in their favor. This thought suggests itself because,

1. The seller's guarantee is worthless unless the seller has the financial means to see it through. Many sellers are not in a position to do this, and it is probable that those who are able to pay will withhold settlement until their liability is established by litigation.

2. In order to recover any loss from the seller, the buyer must be in a position to prove the exact amount to which he is entitled. Where the buyer's claim is based on loss incurred as a result of bodily injuries to an employee or a third party, he cannot determine the full extent of his loss until an official award is made to the injured person. If the latter is an employee, he or his dependents are presumably entitled to workmen's compensation, in which case the aggregate compensation eventually paid will depend upon the degree of disability and the length of time indemnity continues, which may be many years. In some cases, the injured employee, or his dependents may elect to waive workmen's compensation benefits, and start a common law action for damages of a larger sum, just as though he were a member of the public. And, if the injured person is not an employee, he too will sue for damages. In either case, the amount of damages, unless agreed on by compromise, cannot be fixed until final judgment is entered in the proper Court, and this may not be done for several years.

In short, by the time the buyer is in a postion to prove how much the seller is liable for, the seller may be out of business or the claim against him may be outlawed.

3. There is considerable doubt respecting the validity in law of "hold harmless" clauses that place the indemnitor in the position of an insurer in violation of both the insurance laws and corporation laws of practically every state in the Union. Should Courts of proper authority declare such clauses void from the beginning on these grounds, the indemnitees will be the victims of their own invention, unless they were farsighted enough to maintain the proper forms of insurance for their own protection instead of depending entirely on the "hold harmless" clause executed by the seller.

The question naturally arises, then, "What benefit does the buyer derive from the seller's agreement to indemnify?" The answer is, unless the agreement turns out to be valid, and enforceable under any and all circumstances, buyers can gain nothing for their trouble. Furthermore, buyers should remember that they are sellers too. If they persist in extracting a "hold harmless" agreement from every concern from which they purchase anything, they are merely educating sellers to adopt the same tactics when they are in the market as buyers, and in due course all concerns will be acting as insurers under an assortment of "hold harmless" clauses that are as bewildering as they are unreasonable.

It is unnecessary to dwell long on the insurance aspects of this problem. The difficulties created are clear cut. Sellers, contractors, or lessees accepting the obligations imposed by a "hold harmless" clause have but two options; they either carry the risk without insurance or transfer it to an insurance company for a premium. If they do the latter, each "hold harmless" agreement must be considered and accepted by the insurance company as a separate risk, and a separate premium must be paid therefor. The type of public liability policy ordinarily held by lessees, manufacurers, and contractors, does not cover liability which they assume under any oral or written agreement, and it is for this reason that notice of each "hold harmless" agreement must be given to the insurance carrier if protection is desired against the liability which it imposes.

According to the best information available these premiums now range from $10 to $150 for each extension of the seller's policy, from which it is plain that even on small orders sellers must expend a substantial sum for insurance. Ultimately this expense will be added to the price of products, and the vicious circle is joined. Assuming that the buyer and seller are both properly insured, the additional premium is an economic loss which should not be imposed on the seller, nor passed on to the buyer, because the policies already in effect adequately cover the contingency.

Acceptance of "hold harmless" clauses demanded by customers may also jeopardize the seller's protection under their workmen's compensation insurance. By the terms of the compensation policy issued to the seller, the insurance company is entitled to be subrogated to the seller's rights to recover from any person, firm or corporation responsible for any injury to the seller's employees. Consequently, if the seller releases the buyers from his common law liability for such injuries, the seller's insurance company is automatically precluded from proceeding against the buyer to obtain reimbursement for loss occasioned by the buyer's negligence.

Supposing perchance the insurance company is not deprived of this right, what happens? If the company recovers its loss from the buyer, the latter may demand reimbursement from the seller by virtue of the terms of the "hold harmless" agreement signed by the seller. The only way the seller can

avoid this experience is by having the carrier of their workmen's compensation insurance waive its privilege to be subrogated to the seller's rights to recover from the buyers whom the seller has agreed to "hold harmless." As in the case of public liability insurance, the insurance company must attach a separate waiver to the policy for each "hold harmless" clause accepted by the seller.

We submit, therefore, that the practice of incorporating "hold harmless" clauses in contracts is causing great confusion, and also needless expense, without accomplishing the real purpose that it was intended to accomplish. In other words, such agreements do not afford indemnitees the protection that they need, in fact the kind of protection needed can only be supplied by adequate, properly written insurance under which the liabilities of each party are covered independently. Inasmuch as practically all business concerns maintain their own insurance, it is clearly absurd for them to complicate and endanger the protection furnished by such coverage by accepting or demanding "hold harmless" clauses.

If both buyers and sellers, contractors and owners, and landlords and tenants will simply agree to each assume full responsibility for their own obligations according to law, and to each rely on their own insurance for protection, the necessity for any sort of "hold harmless" clause (except possibly one covering patent infringement) in purchase orders, contracts, and leases will instantly cease.

Of course, it will be recognized that buyers, owners, or landlords have a perfect right to, and should, require sellers, contractors, or tenants to maintain adequate insurance, and to furnish satisfactory evidence that such coverage is in force in responsible companies. This precaution must be taken because if the seller, contractor, or tenant is not properly insured, the buyer, or landlord may possibly inherit losses for which the former alone would normally be liable under the law.

We believe this whole problem should be referred to the Division of Simplified Practice, Bureau of Standards, Washington, D. C., with the request that they endeavor to formulate a set of standard liability and insurance provisions for contracts of every description, and secure the widest possible adoption of the clauses ultimately drawn.

ADDENDA

SKF INDUSTRIES, INC.
Philadelphia, Pa.

March 24, 1936.

Mr. John G. Goetz, Managing Director,
Risk Research Institute, Inc.
30 Church Street,
New York, N. Y.
Dear Mr. Goetz:

Your inquiry of March 20 is very opportune. For some time we have been disturbed by the tendency of our customers to request us to hold them harmless in connection with injuries or claims arising with respect to the purchase orders they place with us; therefore, we hope that you intend to enlist the support of all of our members in a campaign to eliminate this dangerous development.

This hold harmless feature is being accomplished in two ways, viz,

(1) By formal Compliance Certificates which we are requested to execute and return;

(2) By means of clauses printed on customer's purchase order forms.

We attach herewith several copies of samples which we have abstracted from recent purchase order transactions with our customers. We have omitted names, for obvious reasons, but assure you they are true copies. Samples #1 and #2 represent formal Compliance Certificates. All other samples (#3 to #13) represent printed clauses abstratced from purchase orders.

Examination of samples #1 and #2 will reveal their severe and all inclusive implications. The remaining samples are severe and all inclusive in varying degrees. In some cases the seller expressly assumes liability, even though the buyer is wholly or partially negligent. In other cases, such assumption is im-

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plied, although unexpressed.

All such purchase orders are routed to our Order Department, which is constantly under pressure to execute customers' orders and they have been in the habit of accepting them without question, which means that they have committed us for any liability that attaches thereto. We imagine that other sellers are doing likewise and are probably in the same position as ourselves.

The nature of our product is such that our employees perform little of their duties on our customers' premises. However, there are times when it is necessary for some of our skilled workmen and technicians to visit our customers' premises for consultation. We cannot predict the incidence of such cases at the time of acceptance of the original customer's order, so we are forced to assume that it may happen in every case, which means that every order is a potentiality.

Upon consulting our insurance carrier as to the effect on our public liability policy of our acceptance of the aforementioned Compliance Certificate, they inform us that our acceptance invalidates our coverage with respect to such specific customer because it cancels the subrogation clause of our policy, which in turn prevents our carrier from collection of indemnification from our customers' carriers for payments or expenses made by our carrier, with respect to claims arising at our customers' place of business where employees may suffer injuries as the result of our negligence or our customers' negligence. They inform us that we can reinstate our policy by special endorsement for each such customer at an additional premium for each endorsement.

If the carrier is correct in stating that our execution of the Compliance Certificate undermines our coverage at such customer's plant and that our only remedy is to obtain the special endorsement covering such location and pay the extra premium, then we feel that the acceptance of purchase orders bearing the clauses referred to also voids the coverage to the same extent.

As the customers whose clauses we quote are representative buyers, doing business over a wide area and with sellers whose Order Departments are probably executing acknowledgments of them the same as our Order Department is doing, then it follows that such other sellers are also undermining their coverage.

No doubt your inquiry among members of Risk Research Institute relative to this matter will reveal startling results, because under ordinary circumstances, there is little direct contact between the Order and the Insurance Departments and the former can hardly be expected to uncover the implications of such clauses or compliance certificates.

Since we have no reason for believing otherwise, we are forced to raise the practical question as to why the carriers have not broadcast a warning to their assureds to this effect. We believe that representative carriers are constantly on the alert to prevent invalidation of assured's interest and we are amazed at their silence. If, as we suspect, the acceptances of purchase orders bearing clauses similar to those in the compliance certificates has the same effect on coverage as the latter does, then we can only conclude that many assured's coverages are being constantly undermined all over this country.

With respect to the buyer's aspect of the case, we are inclined to think that purchasing agents may be using these means to protect themselves against uninsured sellers. If so, they will be surprised to find that, on the one hand, they are actually undermining sellers who have been adequately insured for years and on the other hand have not increased their protection against uninsured vendors.

Our own feeling is that substantial buyers generally recognize their responsibility for claims arising from their own negligence, as is evidenced by the various types of casualty insurance they carry, viz, workmen's compensation, public liability, etc. When buyers, through the various types of clauses referred to, force the seller to assume liability for the negligence of the buyer's agents or employees, they are imposing an unnecessary hardship on the seller, besides forcing the seller to purchase special policy endorsement or run the risk of voiding his insurance, as above explained.

In addition, the buyers set up a vicious circle, because, since they also are sellers, it is only a question of time before their customers will force them to assume their liabilities, all of which produces a needlessly complicated condition.

It is our thought that buyers are entitled to evidence that the seller carries adequate insurance to protect the buyer from any and all claims arising out of the negligence of the seller or his agents, in the form of carriers' insurance certificates, in those cases where the nature of the transaction warrants.

With respect to the seller, it should be recognized that he is in an uncomfortable position. If he refuses to accept these liability clauses he runs the risk of losing the business. If he accepts, he either increases his premiums in those cases brought to his knowledge and referred to his carrier and in the case that they are overlooked through error, he runs unlimited risks, notwithstanding the fact that he honestly believes he has adequately insured his interests.

To be constructive, we wish to suggest the remedy which we think this situation requires, as follows:

(a) With respect to carriers, we think they should broaden their coverage to include all such cases by means of a blanket endorsement, for which a nominal, if any, premium would be charged.

(b) With respect to the clause printed on the purchase order, we think the following clause provides the buyer with adequate protection from negligence on the part of the seller's agents or employees:

"INSURANCE. The seller shall also maintain in a responsible company, such insurance as will protect him from claims under any Workmen's Compensation Act* and from any other claims for damages, for personal injury, including

death, which may arise from operations under this contract whether such operations be by himself or by any sub-contractor and anyone directly or indirectly employed by either of them, and the seller will file with the buyer, upon the acceptance of the contract, certificate of insurance which shall be subject to the approval of the buyer, and the seller shall furnish new certificates should existing policies expire during the progress of the work."

*This provision will have to be modified if the seller self-insures workmen's compensation liability.

(c) With respect to the individual Certificates of Compliance, we have been requested to execute, we offer the following as a certificate that will provide ample protection to the buyer and also av[illegible]d undermining the seller's insurance, viz:

"The undersigned seller hereby certifies to buyer that it is an 'employer' within the meaning of the Federal acts or laws pertaining to unemployment compensation or insurance and old age pensions or annuities, and that it is complying, or will comply, with all such validly enacted Federal acts or laws; and said seller further certifies that it is an 'employer' within the meaning of the workmen's compensation laws in the various states in which it is operating, and that it is complying with said laws; and seller further certifies that it is complying, or will comply with all validly enacted acts or laws of the states wherein it is operating relating to unemployment compensation or insurance and old age pensions or annuities; and said seller hereby agrees to indemnify and hold harmless buyer for and from all claims for taxes and contributions for unemployment compensation or unemployment insurance measured or based upon employment of or compensation paid to persons employed by said seller, in connection with any contract made with or order accepted from the said buyer whereby said seller undertakes to provide merchandise or services to said buyer."

Since certain aspects of this case represent purchasing policies, as well as insurance questions, you might arrange to discuss such phases with the National Association of Purchasing Agents.

We cannot believe that buyers and seller will continue to impose such hardships on each other when the facts of the case are made known to them, and we earnestly trust that your plan to lay this question before your members for a frank and comprehensive consideration will bear fruit.

Sincerely yours,
SKF INDUSTRIES, INC.
(signed) T. W. DINLOCKER,
Secretary and Treasurer.

Specimen Hold Harmless Clauses Abstracted From Purchase Orders Received By SKF Industries, Inc.

1

CERTIFICATE OF COMPLIANCE: The undersigned seller hereby certifies to buyer that he is an "employer" within the meaning of the acts or laws of the States

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Insurance Surveys

(From page 37)

and insurance markets, you have doubtless found at one time or another, can be unusually sensitive. Accordingly, I should like to suggest that —

The agent or broker making the survey be instructed not to disturb present coverages or markets.

Conversely, that present agents or brokers be instructed to stay out of all markets other than the ones presently being used. Intrusion into a fresh market by a "cook with a clumsy spoon" can easily spoil the broth.

On the other hand, no harm is done by giving a competent agent or broker access to rating bureaus.

Also, because of market limitations, I should like to suggest that survey competitions, i.e., surveys made at the same time by competing brokers, are not to the best interest of the insured. Many markets rather than be caught between competing brokers simply freeze.

Summary

Let me say that if you select a firm meeting the standards suggested, permit them to make a comprehensive and impartial study such as I have described and give them free access, without competitive roadblocks, to all markets other than the ones in use, you will know the true condition of your insurance and loss control programs. You will know in dollars and cents whether alternative methods or groupings of coverage or alternative markets will produce a better result. You will know whether you have been receiving the counselling, engineering, claims and broking services which your company requires.

You will know whether your insurance program follows consistently a philosophy of insurance which fits the financial and operating facts of your company.

Current Group

(From page 18)

What does the future hold? Growth of these coverages must, and will, continue to accelerate rapidly; otherwise the advocates of socialization will take over. If we stand idly by and let this happen our disservice to the world will be appalling.

New problems are being presented constantly, and new methods of bringing the benefits of this protection to more and more people are constantly being explored. Currently, Regular Group Insurance with its broad and liberal coverages, including Major Medical, is now available in most States to Employers with as few as 10 employees. Other programs are available to Employers with fewer than 10 employees.

Through the creation of multiple-Employer trusts, these benefits have been made available to very small Employers and members of related groups or associations.

The pressures, whether we all agree or not, are toward broader mass coverage of the population—all of which have need for such coverage — and at a *reasonable price*. Again, let me emphasize that *if we fail, the Government will assume* this responsibility.

Another aspect of current trends is our study of the means of continuing various Hospitalization and Surgical coverages on retired employees — the question of conversion benefits under Hospitalization and Surgical coverages for employees who terminate employment; how best this can be handled so as to provide liberal benefits at reasonable cost.

There are other problems facing us, and we hear much about regulation, both at the State and Federal level. It is true that there has been abuse in certain areas involving Health and Welfare funds. However, serious though it was, it involved but a very small segment of this business. I believe that it is a credit to you and the insurance industry that the greater portion of this business has been administered judiciously, and that we have held our integrity high above all else.

Currently we hear much about the merits of Self-Insurance, and there has been much agitation in certain areas in this direction, the contention being that it is cheaper. I disagree with this position, because in my opinion competition is the key to the success of the American economy — the envy of the entire world and the only way to control costs and assure a fair price—and in Self-Insurance there is no element of competition.

I know of no industry that operates on as small a margin as the insurance companies writing the bulk of Group Insurance today. Statements periodically appearing in the public press are proof of this.

Now — what about Self-Insurance? Where are the savings? Let's take a recent instance, reported in the press, involving a Group Life risk with some 3-million dollars of annual premiums:

First: In New York State, an insurance company must pay a premium tax on net Group Life premiums of 1¾%. On the risk in question the amount would total some $52,500.

Second: An insurance company is also required to set up a contingency reserve of 2%, or $60,000 —which represents a total of $112,500.

A Self-Insured program is required neither to pay a premium tax nor to set up a contingency reserve, which I personally feel is unfair and discriminatory since they pose as providing identical benefits. I must, however, concede that it starts with a savings, in this instance, of $112,500. However, the savings end there, because it is required to incur other expense:

An actuarial consultant — cost unknown;
An attorney — cost unknown;
Establishment of claim facilities —cost unknown;
and many other incidental but significant items, all adding to its costs!

It is my contention that an insurance company, spreading the expense of such a program over many risks can function at lower cost than can a single fund. In addition, an insurance company engages in constant research, benefiting from its nation-wide organization and the experience it acquires in other lines and passing the fruits of these labors along to its policyholders in improved underwriting techniques.

Now—what is your problem as buyers and administrators of these programs? At the risk of creating a storm of protest. I would say that there is little of the element of insurance (as we find it in the Fire and Liability lines) in Group Insurance. You might call it a Cash-and-Carry business. It is your money. The carrier is merely providing a distribution service, returning to you each year that portion of the fund that is not used for benefits and expense. As some of you know—if the carrier doesn't think there is enough in the fund, you are asked to contribute at a higher rate the following year.

May I remind you again—it is your money we are spending; and please do not ever forget that when you start thinking of novel and unique liberalizations of your program.

I do not consider myself reactionary, but I must admit that after 31 years in this business I squirm very uncomfortably when I am presented with certain ultimatums regarding liberalizations that, to the practiced eye, appear unwise, and with an attitude of "It can't happen here," and "if you won't do it someone else will"— (usually a newcomer in the business).

To illustrate—recently there has been a great deal of agitation to extend both the Income-type Disability benefit and the Premium Waiver Disability Benefit upwards from age 60 to 65—the normal retirement date, as you know, under Social Security and many private Pension plans. This has been consistently advocated and pressed by certain Unions; and I might add that a few Employers have joined with them.

Now — why do certain of us who have weathered the storms for many years resist this? Because we recall the bitter experiences of

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Hold Harmless

(From page 45)

wherein he operates, pertaining to Workmen's Compensation and Unemployment Compensation or insurance and is complying with the terms of these acts and/or laws; and the undersigned hereby agrees to indemnify and save harmless, the buyer, from any and all claims of any nature whatever, either relating to injuries or occupational diseases (including death resulting therefrom) to, or caused by, any employee of said contractor or any subcontractor of his, arising in connection with this contract or any future contracts with the buyer, or relating to Unemployment Compensation or Insurance Contributions measured or based upon employment in connection therewith and the contractor agrees to reimburse the buyer for any payments made by the buyer on account of any claims made against it in this connection.

2

CERTIFICATE OF COMPLIANCE: The undersigned seller hereby certifies to buyer that he is an "employer" within the meaning of the Federal acts or laws or acts or laws of the state or states wherein he operates, pertaining to Workmen's Compensation and Unemployment Compensation or Insurance, and is complying with the terms of these acts or laws. The undersigned agrees to indemnify and save harmless the buyer from any and all claims of any nature whatever, either relating to injuries or occupational disease (including death resulting therefrom) to, or caused by, any employee of said contractor or any subcontractor of his, arising in connection with any contract or order with the buyer, or relating to Unemployment Compensation or Insurance Contributions measured or based upon employment in connection therewith. The contractor agrees to reimburse the buyer for any payments made by the buyer on account of any claim made against it in this connection.

3

In accepting this order the Seller or Contractor agrees to protect and save harmless the buyer or its associated companies from any claims for damages ensuing from injury to said Seller's or Contractor's employees from any cause whatsoever while in or about the plant or property of the buyer or its associated companies, and Seller or Contractor further agrees to carry all Workmen's liability insurance necessary under State or Federal statutes in order to fully protect said or associated companies.

4

LIABILITY: In accepting this order, you agree to save us harmless from all claims by you and/or your employees on account of personal injuries sustained while on your or our premises in the fulfillment of this order, and also to indemnify and save us harmless from or on account of any claims for injuries or damages to persons or property caused by you and/or your employees in the fulfillment of this order.

5

LIABILITY: In accepting this order, you agree to save us harmless from all claims by you and/or your employees on account of personal injuries sustained while on your or our premises in the fulfillment of this order, and also to indemnify and save harmless from or on account of any claims for injuries or damages to persons or property caused by you and/or your employees in the fulfillment of this order.

6

INDEMNITY: Any and all demand or demands of every nature or kind arising out of injuries to, or death of, any of your employees or any employee of any of your subcontractors while in, or near the premises of this Company or any of the other of the buyer's companies however such injuries or death may be caused.

7

In accepting this order, you agree to save us harmless from all claims by you and your employees on account of personal injuries sustained while on your or our premises in the fulfillment of this order.

8

If it becomes necessary for the Seller, either as principal or by agent or employee, to enter upon the premises or property of the Buyer, in order to construct, erect, inspect or deliver hereunder, the Seller hereby covenants and agrees to take, use, provide and make all proper, necessary and sufficient precautions, safeguards and protection against the occurrence or happening of any accident, injuries, damages or hurt to any person or property during the progress of the work herein covered, and to be responsible for, and to indemnify and save harmless the Buyer from the payment of all sums of money by reason of all, or any, such accidents, injuries, damages or hurt that may happen or occur upon or about such work, and all fines, penalties and loss incurred for or by reason of the violation of any state, county, municipal or local ordinance or regulation, or the law of the State or United States, while the said work is in progress; and further agrees to procure and carry the insurance required by any compensation act, plan or legislative enactment.

9

CONSTRUCTION INSTALLATION WORK: If it becomes necessary for the seller either as principal or by an agent or employee to enter upon the premises or property of the buyer and/or its customers in order to construct, install, inspect or deliver hereunder, said seller hereby covenants and agrees to take, use, provide and make all proper, necessary and sufficient precautions, safeguard and protections against the occurrence or happening of any accidents, injuries, damages or hurt by whomsoever caused and whether by the negligence or not of the buyer, to any person or property during the progress of the work herein covered, and agrees to be responsible for, and to indemnify and save harmless the buyer from the payment of all sums of money by reason of all, or any, such accidents, injuries, damages or hurt that may happen or occur upon or

about such work and all fines, penalties and loss incurred for or by reason of the violation of any city or borough ordinance or regulation, or the law of the State or United States, while said work is in progress.

The seller shall examine the premises and site mentioned in this order and fully inform himself of the conditions under which the work must be carried on, and he thereby assumes all responsibilities as to the usual, as well as the unusual and unforeseen conditions on said premises.

10

In consideration of receipt of this order, and liability of the buyer, to pay for same, agreement is made between both parties that party signing accompanying acknowledgment shall indemnify the buyer for all actions or demands, for injury to employees of party signing accompanying acknowledgment, subcontractors, and employees thereof, and others, by any defects in tools, appliances, ways, works, machinery or plant furnished by party signing accompanying acknowledgment, and as well by the defects in tools, appliances, ways, works machinery or plant furnished by the buyer. Both parties agree also that signing and return of accompanying acknowledgment is as valid as if on paper itself, bearing same order number of which accompanying acknowledgment is part.

11

The Contractor assumes all risk of damage to property or injuries to persons, including death resulting therefrom, arising out of the performance of the work or in connection therewith or appertaining thereto, sustained by the Contractor, the employees of the Contractor, the employee of the Buyer, and/or other persons, and hereby agree to protect, indemnify and save harmless the Buyer and/or its affiiliates against any and all claims, suits and demands therefor, whether chargeable to the negligence of the Buyer and/or its affiliates, or otherwise.

The Seller agrees to become exclusively liable for and to indemnify the Buyer against and save it harmless from the payment of any Federal, State or other payroll taxes and/or contributions for unemployment insurance or old age pensions or annuities measured by or based upon the wages, salaries or other compensation paid to employees of the Seller by reason of any present or future legislation, State or Federal, or both.

12

In accepting this order you agree to indemnify the company against all losses, damages, and expenses arising from liens and from infringements of patents, and also against loss, damage and expenses arising from injuries to person and property caused in whole or in part by yourself, your agent or your employees while engaged in executing this order.

(More on page 51)

CHAPTER DIRECTORY

AMERICAN SOCIETY OF INSURANCE MANAGEMENT

CENTRAL ILLINOIS CHAPTER

Meetings—2nd Thursday of each month. Bloomington, Illinois. Dinner, 6:30 P.M.
President—D. W. Covey, LeTourneau-Westinghouse Co., Peoria, Ill.
Vice-Pres.—Gehl Tucker, A. E. Staley Mfg. Co., Decatur, Ill.
Secy.-Treas.—K. K. Schroeder, A. E. Staley Mfg. Co., Decatur, Ill.

CHICAGO CHAPTER

Meetings—3rd Thursday of each month. September through May. Dinner, 6:00 P.M.
President—Casimir Z. Greenley, International Minerals & Chemical Corporation, Chicago
Vice-Pres.—Richard E. Blakley, The Tribune Company, Chicago
Treasurer—G. J. Burns, Continental Ill. National Bank & Trust, Chicago
Secretary—Ann Auerbach, Goldblatt Bros., Inc.,
333 South State St., Chicago 4, Illinois

CINCINNATI CHAPTER

Meetings—1st Wednesday each month, except July and August. Luncheon, 12:00 Noon.
President—Lloyd R. Everhard, Trailmobile Inc., Cincinnati
Vice-Pres.—Thomas N. Fisher, Fifth Third Union Trust Co., Cincinnati
Treasurer—A. L. Benjamin, The Cincinnati Gas & Electric Co., Cincinnati
Asst. Treas.—Paul K. Dykes, Ohio River Company, Cincinnati
Secretary—A. J. Haberer, The Procter & Gamble Company
Gwynne Building, Cincinnati 1, Ohio

DALLAS-FORT WORTH CHAPTER

Meetings—3rd Thursday each month. Luncheon, 12:00 Noon
President—D. C. Morris, Chance-Vought Aircraft, Inc., Dallas, Texas
Vice-Pres.—T. T. Redington, Jr., Dresser Industries, Inc., Dallas, Texas
Treasurer—Miss Annetta Johnson, The Murray Company of Texas, Inc., Dallas, Texas
Secretary—Harold Palmer, The Frito Company
2600 Cedar Springs, Dallas, Texas

DELAWARE VALLEY CHAPTER

President—F. Walter Norcross, The Budd Company, Philadelphia
Vice-Pres.—Howard C. Giles, E. I. Dupont de Nemours & Company, Inc., Wilmington, Delaware
Treasurer—David D. Day, R. M. Hollingshead Corporation, Camden, N. J.
Asst. Secy.—W. L. Higgens, United Engineers & Constructors, Inc., Philadelphia
Asst. Treas.—E. C. Jones, Jr., Philadelphia Electric Company, Philadelphia
Secretary—Charles R. Garton, Atlantic City Electric Company
1600 Pacific Avenue
Atlantic City, N. J.

INSURANCE BUYERS ASSOCIATION OF DETROIT

Meetings—3rd Wednesday each month. Dinner, 6:00 P.M.
President—R. H. French, Michigan Wisconsin Pipe Line Company, Detroit
Vice Pres.—W. A. Johnston, Chrysler Corporation, Detroit
Treasurer—E. D. Damon, Parke, Davis & Company, Detroit
ASIM Rep.—E. F. Neubecker, Burroughs Corporation, Detroit
Secretary—F. L. Kiernan, Michigan Consolidated Gas Company
415 Clifford St.
Detroit 26, Michigan

HOUSTON AREA INSURANCE BUYERS ASSOCIATION

Meetings—2nd Wednesday each month. Luncheon, 11:30 A.M.
President—R. T. Effinger, Jr., Reed Roller Bit Company, Houston
Vice-Pres.—Jack Campbell, Tennessee Gas Transmission Co., Houston
Treasurer—John Wechsler, Eastern States Petroleum Co., Houston
Secretary—R. C. Lee, Sheffield Steel Division,
Armco Steel Corporation
P.O. Box 3129, Houston, Texas

MARYLAND CHAPTER

Meetings—3rd Thursday each month at 6:30 P.M. Sept.-June
President—Robert C. Colbert, National Brewing Company, Baltimore
Vice-Pres.—B. L. Beninghove, Maryland Shipbuilding & Drydock Co., Baltimore
Secy.-Treas.—Miss Marion E. Bower, The Davison Chemical Company,
Division of W. R. Grace & Co.,
101 North Charles St., Baltimore 1, Md.

MINNESOTA CHAPTER

Meetings—4th Thursday of each month. Dinner, 6:30 P.M.
President—K. N. Cervin, Minneapolis-Moline Co., Minneapolis
Vice Pres.—Howard T. Weber, Economics Laboratory, Inc., St. Paul
Administrative Secy.—Lillian K. Polzin, 722 Second Ave. South, Minneapolis 2, Minnesota
Secy.-Treas.—Julian Mageli, Nash Finch Company
3115 West Lake Street, Minneapolis 16, Minn.

MONTREAL INSURANCE BUYERS ASSOCIATION

Meetings—3rd Thursday of each month. Luncheon, 12:00 noon.
President—J. G. Harper, Northern Electric Company, Limited, Montreal.
Vice-Pres.—H. H. Cowan, Steinberg's Limited, Montreal.
Secy.-Treas.—Glen Buchanan—The Shawinigan Water & Power Company,
600 Dorchester St. West
Montreal, Canada

NEW YORK CHAPTER

Meetings—4th Thursday each month, except July and August. Luncheon, 12:20 P.M.
President—W. D. McGuinness, Port of New York Authority, N. Y. C.
1st Vice-Pres.—H. Stanley Goodwin, McKesson & Robbins, Inc., New York
2nd Vice-Pres.—Frank Hornby, Jr., Ebasco Services Inc., New York
Treasurer—J. M. Southwick, Ethyl Corporation, New York
Secretary—Robert B. Schellerup, Union Bag-Camp Paper Corp.
Woolworth Building
233 Broadway
New York, N. Y.

NORTHERN CALIFORNIA CHAPTER

Meetings—3rd Thursday of each month. Dinner, 6:00 P.M.
President—O. A. Wees, Crown Zellerbach Corporation, San Francisco
Vice-Pres.—R. W. Humphrey, Southern Pacific Company, San Francisco
Treasurer—A. E. Flieger, Bank of California, San Francisco
Secretary—J. A. Crockwell, Pacific Gas & Electric Company,
245 Market St., San Francisco

OREGON CHAPTER

Meetings—1st Wednesday of each month. Dinner, 6:00 P.M.
President—J. Doyle Pigg, Lipman Wolfe & Company, Portland, Oregon
Vice-Pres.—L. E. Forsythe, The United States National Bank, Portland, Oregon
Secy.-Treas.—Robert S. Horning
2136 S.E. Seventh Avenue
Portland, Oregon

SOUTHERN CALIFORNIA CHAPTER

Meetings—3rd Wednesday of each month. Dinner, 6:30 P.M.
President—Roy A. Balling, Northrop Aircraft, Inc., Hawthorne, California
Vice-Pres.—William E. Reimer, Carnation Company, Los Angeles, Calif.
Treasurer—M. J. Bowman, American Potash & Chemical Corporation, Los Angeles, California
Secretary—George P. Kohl,
California Bank
625 South Spring Street
Los Angeles, California

VIRGINIA-CAROLINA CHAPTER

Meetings—4th Tuesday each month except December (Check with Secretary for time and place).
President—B. M. Hulcher, Southern States Cooperative, Richmond, Va.
1st Vice-Pres.—Paul Stickler, Reynolds Metal Company, Richmond, Va.
2nd Vice-Pres.—A. Grant Whitney, Belk Stores, Inc., Charlotte, N. C.
Secy.-Treas.—Lydia S. Hammond, Miller & Rhoads, Inc.,
Richmond, Virginia

Hold Harmless

(From page 49)

13

In accepting this order you agree to hold us harmless from any and all liability arising.

(a) because of the use of any patented invention, manufacture, machine, article, appliance, composition or matter, art, design, or process that has been or may hereafter be adopted or used in the construction of or which may be embodied in any of the material, goods, or equipment ordered from you; also from any and all liability arising

(b) because of the injury or the death from any cause whatsoever of any of your employees or of any of the employees of any of your sub-contractors while in, on or near our premises.

Comments of Milton Acker, Manager, Compensation and Liability Dept. National Bureau of Casualty And Surety Underwriters

It will be the purpose of this memorandum to discuss indemnity or hold harmless agreements included on customers' purchase order forms or which may be imposed by other means, with reference particularly to liability insurance protection.

Basic Coverages Provided Under Liability Policies

Public Liability and Property Damage Liability policies provide coverage with respect to the liability imposed upon the insured by law for damages on account of bodily injury sustained by persons other than employees and injury to or destruction of property of such persons, caused by accident, and arising out of the business operations conducted by the insured. It is important to note that the policy coverage applies only with respect to such liability as is imposed by law on the named insured. Liability policies definitely exclude coverage with respect to all liability which may be assumed by or imposed on the insured under any form of contract or agreement, oral or written. This provision in the policy is commonly designated the Contractual Liability exclusion. The forms of indemnity or hold harmless agreements under discussion involve liabilities assumed under contract or agreement and the basic policy does not provide coverage with respect to the liabilities assumed by the insured thereunder.

Effect of Indemnity or Hold Harmless Agreements

These agreements require indemnitors (sellers) to assume the liability of the indemnitees (buyers) with respect to bodily injury and property damage resulting from the operations performed by sellers including the consumption, handling or use of products or merchandise sold by the sellers, regardless of sole or partial negligence on the part of the buyers. Bodily injury may be suffered by employees of buyers, employees of sellers or outside members of the public. The imposition of such liabilities on sellers is considered to be unfair and unreasonable. A fair business policy should provide that each business organization be responsible for the conduct of its individual enterprise and assume all liabilities which may be imposed on it under the law in connection therewith, with respect to bodily injury to persons or damage to property. Such liabilities should not be shifted to others. It has been correctly stated that a continuation of the practice of imposing hold harmless agreements on sellers will undoubtedly induce an extension of the practice and will result in the imposition of similar agreements on buyers by their customers. A vicious circle will be produced the result of which is only to add unnecessary burdens on business organizations and will involve additional and unnecessary increases in insurance costs.

Coverage for assumed liability may be provided but insurance carriers must be advised specifically with respect to each type of hold harmless agreement. The carrier must analyze these agreements in order to determine the extent of liability assumed and obtain complete information concerning the hazards involved. These hazards may vary not alone between individual risks but also with respect to a single risk by reason of the different types of agreements used by buyers and the varying hazard conditions which exist with respect to the buyer. The insurance problem with respect to determination of the specific additional liabilities to be covered and the proper premium charges therefor will be made difficult and become extremely involved. Furthermore, the pro-

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Hold Harmless

(From page 51)

visions in hold harmless agreements may be of a character which impose liabilities on sellers to an extent as to materially lessen the desirability of the entire risk from an insurance standpoint. In order that sellers could be assured of having complete protection at all times, they would be required to keep track and notify the insurance carrier of every hold harmless agreement in force during the policy period.

Many buyers have complete and adequate protection for their legal liabilities by having in force Workmen's Compensation and the necessary forms of liability insurance policies. A shifting of any portion of these liabilities to sellers will not reduce premiums buyers are required to pay under these policies but will force sellers to buy additional insurance and will result in an unnecessary and burdensome duplication of insurance protection.

Need for Hold Harmless Agreements

Reasoning from the standpoint that each business organization should assume its own responsibilities under the law with respect to liability claims, and that proper and adequate protection is available through the purchase of Workmen's Compensation and Liability insurance policies, it is clear that no real need exists for hold harmless agreements. Workmen's Compensation policies provide the necessary protection with respect to injuries suffered by employees of the buyer in the course of their employment. Manufacturers' and Contractors' Public Liability and Property Damage Liability insurance policies provide buyers with the necessary protection as respects bodily injury suffered by any person or persons other than their own employees or damage to their property. This would include all employees of sellers who are members of the public to buyers. The necessary protection to buyers with respect to operations performed on their premises by contractors, sellers or others, and not already provided automatically under Manufacturers' and Contractors' Liability policies, is afforded under Owners' or Contractors' Protective Public Liability and Property Damage Liability insurance policies. Protection to buyers with respect to the possession, consumption, handling or use of merchandise or products manufactured, sold, handled or distributed by them is afforded under Product Public Liability and Property Damage Liability insurance policies. All of these various forms of coverage are available similarly to sellers. If both buyers and sellers carry these various forms of insurance with the addition of Automobile, Teams and Elevator insurance where necessary, each will be adequately protected and there will be no necessity for either to impose any part of their responsibilities on the other. As a pre-requisite to the execution of purchase orders buyers may, if they so desire, require sellers to furnish evidence that they (the sellers) are properly and adequately protected by having in force Workmen's Compensation and the necessary forms of liability insurance policies.

An Editorial On Contract Clauses Published In The April 8, 1936, Issue Of The Bulletin Of The National Association Of Purchasing Agents From One P.A. to Another

Contract clauses are on the spot again, from an entirely new angle. Insurance experts tell us that protective clauses in purchase orders and contracts are shifting responsibility and liability, with apparently very little knowledge or understanding of the situation that is created by the transfer.

We all know of the increasing use of special clauses to protect against labor and tax uncertainties. Some of them are extremely broad but there is also a growing use of general protective clauses. There is also a considerable demand for compliance certificates intended to secure protection from the workmen's compensation or unemployment compensation responsibilities and liabilities of the supplier.

Standard Insurance Clauses

The insurance experts find these all-inclusive "save harmless" agreements objectionable because there may be an acceptance of liability without insurance protection to cover it. It works out this way. Standard insurance contracts protect only against reasonable and natural risks and do not cover any other risk that may be assumed by the insured unless such assumed risk has been expressly provided for. If that were not true, anyone could multiply the coverage of his insurance policies by agreeing to accept the risks and liabilities of others; and could do so without the real party at interest, the insurance company that must pay the bills, agreeing to the additional liability or being paid for assuming it.

A general "save harmless" clause may compel the seller to assume what is logically and legally the responsibility of the buyer. No? Wait a minute. Standard insurance contracts also contain a subrogation clause which, upon payment of a claim, transfers to the insurance company all rights of recovery held by the policyholder. For instance: you insure against certain risk; you are injured or damaged and are entitled to compensation under the policy even though someone else caused or contributed to the loss or damage and would be liable for it; you collect under your policy. The subrogation clause in the policy transfers to the insurance company any legal right you may have to collect from another person for the claim it has paid. If that were not true you could collect twice for the damage incurred: (1) from the insurance company, and (2) from the party who is legally responsible for the injury or damage.

Put those two standard principles of insurance together and you see what a broad "save harmless" clause does. * * * The seller agrees to accept all responsibility and liability even though the injury or damage may be caused by or contributed to by the negligence of the buyer or his employees.

Liability Is Shifted

Under such a clause the seller furnishes insurance as well as the material or service that is concontracted for. The chances are ten to one his insurance policy neither permits him to do that nor fully covers any loss he may be subject to while doing so.

The buyer's liability is in all probability covered by his own insurance arrangements but the "hold harmless" agreement shifts the responsibility to the seller, and to the seller's insurance company if his policies cover the transaction. It also cancels the subrogation rights of the seller's insurance company to collect from the buyer. Here are two examples of the situation being created:

(1) An employee of the seller injured on the premises of the buyer would normally claim compensation from the seller's insurance company. A condition might arise whereby he would sue the buyer for causing or contributing to the injury and this would normally be covered by the buyer's public liability insurance or self-insurance fund; but any liability of the buyer has been shifted.

(2) An employee of the seller becomes injured on the premises of the buyer, claims compensation from the seller's insurance company, who would normally take subrogation against the buyer and this would be taken care of under the public liability policies of the buyer. There again the seller has contracted to accept the liability of the buyer.

In both instances, a "hold harmless" clause transfers to the seller the liability of the buyer and relieves the buyer or his insurance company of payments they would normally be obliged to make.

Although the examples are based on the shift of personal injury liabilities, the same situation may be created in the transfer of responsibility for property damage or product liability. Purchase clauses have been used for illustration but sales agreements and sales contracts are just as likely to throw unusual and uncertain responsibilities on the buyer.

That's the story presented to us by a group of representative insurance experts. Much of this situation, they believe, has been created unknowingly; some of it deliberately—A transfer of their responsibility by self-insured companies in order to limit or shift their liability.

What to do?

Governmental agencies have always insisted on protection of this "hold harmless" variety. In the past few years protective clauses and certified compliance agreements have multiplied in general business transactions because of the requirements and uncertainties of legislation and taxes.

Most of this "save harmless" protection originated in contracting and subcontractiong relationships but it is now being extended into many sales transactions through the use of such clauses in regular purchase order and contract forms. The race between seller and buyer to cover all possible uncertainties and contingencies and to shift advantages and disadvantages may, if we are not careful, be won by the dark horse, confusion. Clauses in quotations, counterclauses in orders or contracts and repudiating or conflicting clauses in the acknowledgement, leave many transactions without the simple essentials of a contract: an offer and an acceptance that are complete because they have no limitation or qualification. Then, too, the advantages to be secured from special clauses in sales and purchase contracts may be more than offset by a restriction or loss of some of the usual legal rights or responsibilities that normally govern every business transaction.

Contract terms, the same for both sales and purchases, should not be too difficult to develop. If selling and buying are companionate instead of competitive, mutually satisfactory terms must be developed, and they can be if reasonable representatives of both functions get together for that purpose.

Why not complete the simplified purchase order form by designating reasonable responsibilities for both buyer and seller, and make those terms cover standard sales agreements too? Cut out the jockeying for preferred position through contract clauses; everyone accept his own responsibilities. Then limit contracts and contract periods to transactions that may be mutually satisfactory under the simplified terms. The attempts to cover exceptional situations are what cause the unfairness and confusion; the next fellow makes the exceptional terms his standard, and 'round it goes.

The situation seems sufficiently important to have the immediate attention of executives responsible for insurance, sales and purchases. "Save Harmless" may save and be harmless provided both parties to the transaction realize who is saved and who is harmed and who pays for the saving. Losses, lawsuits and strained relationships are the alternative.—G. A. R.

American Mutual Liability Insurance Co.
Boston, Mass.

April 14, 1936.

Mr. John G. Goetz
Risk Research Institute, Inc.
30 Church Street
New York, N. Y.

Dear Mr. Goetz:

Because the statutes and the judicial laws of the several states differ in so many respects, it is impossible in a letter of reasonable length to consider all the factors applicable, as respects each state, to the several possible set-ups referred to in the letter of March 24, 1936 to you from S.K.F. Industries, Inc.

In order to give some thoughts which may be of value to you I am taking for analysis the following set-up: The seller and the buyer are both incorporated New York manufacturers, carrying on business in New York only, and each with workmen's compensation and manufacturers public insurance, the seller being insured in one company and the buyer in another and the seller, while his policies are in force agreeing with the buyer as follows:

"In accepting this order, you (the seller) agree to save us (the buyer, harmless from all claims by you and your employees on account of personal injuries sustained while on your or our premises in the fulfillment of this order."

(More on page 58)

Roster Of Member Companies

AMERICAN SOCIETY OF INSURANCE MANAGEMENT, INC.

CENTRAL ILLINOIS

Black & Company
Caterpillar Tractor Company
Central Illinois Light Company
Commercial National Bank of Peoria
Decatur Herald & Review
Funk Brothers Seed Company
Honeggers' & Company, Inc.
Illinois Power Company
Illinois Wesleyan University
S. D. Jarvis Company
Keystone Steel & Wire Company
LeTourneau-Westinghouse Company
Mississippi Valley Structural Steel Co
Mueller Company
Princess Peggy, Inc.
J. L. Simmons Company, Inc.
A. E. Staley Manufacturing Co.
Steak & Shake
Veatch Business Service

CHICAGO

Aldens Inc.
Allis-Chalmers Manufacturing Co.
American Bakeries Company
American Marietta Company
Automatic Electric Company
Borg-Warner Corporation
Bowman Dairy Company
Brunswick-Balke-Collender Co.
Bureau of Safety
Butler Brothers
A. M. Castle & Company
The Celotex Corporation
Central Fibre Products Company
City Products Corporation
Collins Radio Company
Continental Ill. Nat'l Bank & Trust Co. of Chicago
Container Corporation of America
Crane Company
Cuneo Press, Inc.
Curtiss Candy Co.
R. R. Donnelley & Sons Co.
The Reuben H. Donnelley Corp.
Fairbanks, Morse & Company
Fansteel Metallurgical Corporation
Fred Harvey
Lloyd A. Frey Roofing Company
General American Transportation Company
Goldblatt Bros., Inc.
Edward Hines Lumber Company
Inland Steel Company
International Minerals & Chemical Corp.
Jewel Tea Co., Inc.
S. C. Johnson & Son, Inc.
Joslyn Manufacturing & Supply Corporation
Kawneer Company
Link-Belt Company
Liquid Carbonic Corp.
Magnaflux Corporation
Marshall Field & Company
Material Service Corporation
The Meyercord Co.
Montgomery Ward & Company
Motorola, Inc.
National Standard Company
National Tea Company
Natural Gas Pipeline of America
Northwestern University
Pabst Brewing Company
The Peoples Gas Light & Coke Co.
The Pullman Company
Pullman Standard Car Manufacturing Co.
Pure Oil Company
Quaker Oats Company
Simoniz Company
A. O. Smith Corporation
Spiegel, Inc.
Standard Oil Co. (Indiana)
Charles A. Stevens & Company
Stewart-Warner Corporation
The Tribune Company
United Air Lines, Inc.
United States Gypsum Company
Victor Chemical Works
Visking Corporation
Walgreen Drug Stores
Warwick Manufacturing Company
The Willett Company
Wisconsin Electric Power Co.
Wisconsin Public Service Corporation

CINCINNATI

Acme-Newport Steel Company
American Laundry Machinery Co.
Armco Steel Corporation
Bardes Corporation
Bavarian Brewing Co., Inc.
Burger Brewing Company
The Philip Carey Mfg. Co.
The Cincinnati Enquirer
Cincinnati Gas & Electric Co.
Cincinnati & Suburban Bell Telephone Co.
The Drackett Company
The Duriron Company, Inc.
The Eagle-Picher Company
Emery Industries, Inc.
Thomas Emery's Sons, Inc.
Federated Department Stores, Inc.
The Fifth Third Union Trust Company
The Gardner Board & Carton Co.
The Girdler Company
The Globe Wernicke Company
Robert Gould Company
The Hamilton Foundry & Machine Co.
The Andrew Jergens Company
The E. Kahn's Sons Company
The Kroger Company
The Lunkenheimer Company
Frank Messer & Sons, Inc.
The Metal Specialty Company
The H. H. Meyer Packing Company
The Mosler Safe Company
The Nivison Weiskopf Company
The Ohio River Company
The Procter & Gamble Company
The Provident Savings Bank & Trust Co
Queen City Chevrolet Company
The Richardson-Taylor Globe Corp.
Shepard Warner Elevator Company
The Sorg Paper Co.
Toms River-Cincinnati Chemical Corp.
Trailmobile Inc.
United States Shoe Corporation
The U. S. Printing & Lithograph Co.
The George Wiedemann Brewing Co.
The Western and Southern Life Insurance Co.

DALLAS-FT. WORTH

American Liberty Oil Co.
The British-American Oil Producing Company
Campbell Taggart Associated Bakeries, Inc.
Chance Vought Aircraft, Inc.
Coca-Cola Bottling Company
Collins Radio Co. (Texas Division)
Dallas Power & Light Co.
Dresser Industries, Inc.
The Frito Company
General American Oil Co. of Texas
Gifford-Hill & Co., Inc.
Intercontinental Mfg. Company, Inc.
Lone Star Gas Company
Magnolia Petroleum Company
The Murray Company of Texas, Inc.
Olmsted-Kirk Company
Dr. Pepper Company
Southern Union Gas Company
Sun Oil Company
Temco Aircraft Corporation
Texas Automatic Sprinkler Corp.
The Times Herald Printing Company

DELAWARE VALLEY

American Viscose Corp.
Armstrong Cork Company
Atlantic City Electric Company
The Atlantic Refining Company
The Budd Company
Best Markets, Inc.
Campbell Soup Company
Catalytic Construction Company
E. I. duPont de Nemours & Co., Inc.

Fidelity Mutual Life Insurance Co.
Food Fair Stores, Inc.
Keasbey & Mattison Company
Kaiser Metal Products, Inc.
Mutual Rendering Company, Inc.
Penn Fruit Company
Penn Mutual Life Insurance Co.
Pennsylvania Salt Mfg. Co.
Philadelphia Electric Company
The Philadelphia Saving Fund Society
Pioneer Chemical Works
Publicker Industries
Radio Corporation of America
Scott Paper Company
S.K.F. Industries, Inc.
Smith, Kline & French Laboratories
Sun Clothes, Inc.
United Engineers & Constructors, Inc.
The United Gas Improvement Company

DETROIT

Allen Industries, Inc.
American Blower Corporation
American Motors Corporation
Argus Cameras, Inc.
Bull Dog Electric Products Company
Burroughs Corporation
Chrysler Corporation
Darin & Armstrong, Inc.
Davidson Brothers
Detroit Gasket & Manufacturing Company
Detroit Harvester Company
The Detroit Edison Company
Detroit Steel Corporation
Ex-Cell-O Corporation
Fenestra, Inc.
Ford Motor Company
Freuhauf Trailer Company
Gar Wood Industries, Inc.
The Gear Grinding Machine Company
Goddard & Goddard Company
The J. L. Hudson Company
Hygrade Food Products Corporation
The Jam Handy Organization, Inc.
Kelsey-Hayes Wheel Company
S. S. Kresge Company
Lyon Incorporated
McCord Corporation
Michigan Consolidated Gas Company
Michigan Wisconsin Pipe Line Co.
Micromatic Hone Corporation
The Murray Corporation of America
National Bank of Detroit
Parke Davis & Company
Penn-Michigan Mfg. Corporation
Pfeiffer Brewing Company
Square D
The Udylite Corporation
The Upjohn Company
Verners Ginger Ale, Inc.
Woodall Industries, Inc.
Wyandotte Chemicals Corporation
L. A. Young Spring & Wire Corporation

HOUSTON

Ada Oil Company
American Warehouses, Inc.
Anderson Clayton & Company
Bank of the Southwest
Baroid Sales Division of National Lead Co.
Cameron Iron Works, Inc.
Continental Oil Company
Converted Rice, Inc.
The Dow Chemical Co.
Drilling & Exploration Co. Inc.
Eastern States Petroleum Co. Inc.
Halliburton Oil Well Cementing Co.
Homco
Jefferson Lake Sulphur Company
Lane Wells Company
McCarthy Oil & Gas Corporation
Perforating Guns Atlas Corp.
Quintana Petroleum Corporation
Reed Roller Bit Company
Schlumberger Well Surveying Corp.
Sheffield Steel Division of Armco Steel Corporation
Stewart & Stevenson Services, Inc.
Tennessee Gas Transmission Co.
Transcontinental Gas Pipe Line Corp.
Tuboscope Company
J. Weingarten, Inc.
Win Hawkins Drilling Company

MARYLAND

Army & Air Force Exchange Service
The Arundel Corporation
Baltimore Contractors, Inc.
Cafritz Construction Co.
City Baking Company
W. T. Cowan, Inc.
Crown Central Petroleum Corp.
Crown Cork & Seal Company
The Davison Chemical Corporation
The E. H. Koester Baking Co.
Greenspring Dairy, Inc.
L. Greif & Bros., Inc.
Gunther Brewing Co., Inc.
The Hecht Company
Hutzler Brothers Co.
Insurance Buyers' Council
Harry T. Campbell Sons Corp.
Emerson Drug Company
The Glenn L. Martin Company
Maryland Shipbuilding & Drydock Co.
McCormick & Co., Inc.
Mercantile Safe Deposit & Trust Co.
Merchants Terminal Corp.
The National Brewing Co.
Office of Naval Material Department of the Navy
Olin Mathieson Chemical Corp.
Schmidt Baking Co., Inc.

MINNESOTA

Anderson Corporation
Cargill, Incorporated
Coca-Cola Bottling Co. of Minnesota
The Creamette Co.
Curtis 1000, Inc.
Economics Laboratory, Inc.
Faribault Woolen Mill Company
Federal Cartridge Corporation
First National Bank of Minneapolis
First National Bank of St. Paul
Fitger Brewing Company
Fullerton Lumber Company
Gamble-Skogmo, Inc.
M. A. Gedney Company
General Mills, Inc.
Green Giant Company
Theo. Hamm Brewing Company
Geo. A. Hormel & Co.
Industrial Aggregate Co.
International Milling Company
Landers-Norblom-Christenson Co
Land O'Lakes Creameries, Inc.
Maple Island, Inc.
Mayo Clinic
McCabe Company
Maney Bros. Mill & Elevator Co.
Minneapolis Brewing Company
Minneapolis-Honeywell Regulator Co.
Minneapolis-Moline Company
Minneapolis Star & Tribune Company
Minnesota Mining & Manufacturing Co.
Minnesota & Ontario Paper Co.
Munsingwear, Inc.
Nash-Finch Company
The B. F. Nelson Mfg. Co.
Northern Ordnance Inc.
Northern States Power Company
Northrup-King & Company
Northwest Airlines, Inc.
W. S. Nott Company
Owatonna Canning Company
Owatonna Tool Co.
M. F. Patterson Dental Supply Co. of Minnesota
F. H. Peavey & Company
Pillsbury Mills, Inc.
Queen Stove Works, Inc.
Rayette, Inc.
Red Owl Stores, Inc.
Rochester Dairy Cooperative
St. Paul Terminal Warehouse Co.
Scott-Atwater Mfg. Company
J. L. Shiely Company
Super Valu Stores, Inc.
Toro Manufacturing Company
Waldorf Paper Products Company
Winston Bros. Company
Wood Conversion Company

MONTREAL

Aluminum Company of Canada, Ltd.
Atlas Asbestos Company Limited
The Bell Telephone Co. of Canada
Canadian Celanese Ltd.
Canadian Industries Limited
Canadian International Paper Corporation Ltd.
Canadian Marconi Company
Canadian Pratt & Whitney Aircraft Company, Ltd.
Consolidated Paper Corporation Limited
Dominion Bridge Company Limited
Dominion Engineering Works Limited
Dominion Glass Company Limited
Dominion Textile Company Limited
Du Pont Co. of Canada (1956) Ltd.
The Foundation Co. of Canada Limited
Imperial Tobacco Co. of Canada Limited
Northern Electric Company, Limited
Rolls-Royce of Canada, Limited
The Shawinigan Water and Power Company
Steinberg's Limited

NEW YORK

ACF Industries, Inc.
Allied Stores Corporation
American Airlines

American Brake Shoe Company
American Broadcasting-Paramount Theatres, Inc.
American Bank Note Co.
American Can Company
American Chicle Company
American Cyanamid Company
American District Telegraph Co., Inc.
American Gas & Electric Service Co.
American Hard Rubber Company
American Home Products Corp.
American Machine & Foundry Co.
American Management Association
American Metal Company, Ltd.
American News Co., Inc.
The American Oil Company
Anaconda Company
Anaconda Wire & Cable Company
Arabian American Oil Company
Associated Dry Goods Corp.
The Babcock & Wilcox Company
Belk Stores
Bell Telephone Laboratories
The Best Foods, Inc.
Bigelow-Sanford Carpet Co., Inc.
Blades & Macaulay
Sidney Blumenthal & Co., Inc.
The Borden Company
Bristol Myers Company
Burlington Industries, Inc.
California Oil Company
Canada Dry Ginger Ale Co.
John J. Casale, Inc.
Celanese Corporation of America
The Chase Manhattan Bank
Cities Service Petroleum, Inc.
Chilean Nitrate Sales Corporation
Climax Molybdenum Company
Coastal Oil Company
Coats & Clark's Sales Corporation
Colgate-Palmolive-Peet Company
Columbian Carbon Company
Combustion Engineering, Inc.
Commercial Solvents Corporation
Commonwealth Services, Inc.
Congoleum-Nairn, Inc.
Consolidated Cigar Corp.
Continental Baking Company
Continental Can Company, Inc.
Continental Grain Company
Corporate Advisors, Inc.
Curtiss-Wright Corporation
Daystrom, Inc.
The Dime Savings Bank of Brooklyn
Dow, Jones & Co., Inc.
Ebasco Services Incorporated
Thomas A. Edison, Inc.
Joseph Dean Edwards
El Paso Natural Gas Company
Electrolux Corporation
Esso Standard Oil Company
Ethyl Corporation
Federal Paper Board Co., Inc.
The First National City Bank of New York
The Firth Carpet Company
The Flintkote Company, Inc.
Foster-Wheeler Corp
Robert Gair Co., Inc.—Division of Continental Can Company, Inc.
Geigy Chemical Corporation
General Aniline & Film Corporation
General Baking Company
General Electric Company
General Foods Corp.
Gibbs & Hill, Inc.
W. R. Grace & Company
Great Lakes Carbon Corporation
Guaranty Trust Company
S. Gumpert Co., Inc.
Hawley & Hoops
Hess, Inc.
Hewitt-Robins, Inc.
Hudson Pulp & Paper Corp.
Imperial Paper & Color Corp.
International Business Machines Corp.
Interchemical Corp.
Johns-Manville Corp.
Johnson & Johnson
A. & M. Karagheusian, Inc.
Kearfott Company, Inc.
Kennecott Copper Corporation
Knickerbocker Construction Co.
H. Kohnstamm & Co., Inc.
Lerner Stores Corp.
Lever Brothers Co.
Liggett & Myers Tobacco Co.
Lily-Tulip Cup Corp.
Thomas J. Lipton, Inc.
R. H. Macy & Co., Inc.
McKesson & Robbins, Incorporated
Manufacturers Trust Co.
Merritt-Chapman & Scott Corp.
Metal & Thermit Corp.
Philip Morris Incorporated
Muzak Corporation
National Biscuit Company
National Broadcasting Company, Inc.
National Distillers Products Corporation
National Starch Products, Inc.
The Nestle Company
J. J. Newberry Company
New York Herald-Tribune
Olin Mathieson Chemical Corporation
Otis Elevator Company
Owens-Illinois Glass Company
Pan American World Airways, Inc.
Panaminas Incorporated
S. B. Penick & Co.
Chas. Pfizer & Co., Inc.
Pitney-Bowes, Inc.
The Port of New York Authority
Refined Syrups & Sugars, Inc.
Reliance Manufacturing Company
Republic Aviation Corporation
Research Cottrell, Inc.
Riegel Paper Corp.
Seagram-Distillers Corp.
Shein's Express
Shell Oil Company
Sperry Rand Corporation
Sperry Gyroscope Co.
Standard Oil Company (New Jersey)
J. P. Stevens & Co., Inc.
Sunshine Biscuits, Inc.
Sylvania Electric Products, Inc.
The Texas Company
Tide Water Associated Oil Co.
Union Bag-Camp Paper Corporation
Union Carbide & Carbon Corp.
United Aircraft Corp.
United Cigar-Whelan Stores Corp.
United Hospital Fund of New York
United Merchants & Manufacturers, Inc.
United Parcel Service
U. S. Industries, Inc.
United States Plywood Corporation
Universal Pictures Co., Inc.
Vick Chemical Company
West Disinfecting Company
Western Electric Company
West Virginia Pulp & Paper Company
Witco Chemical Company
Worthington Corporation

NORTHERN CALIFORNIA

American Trust Company
Guy F. Atkinson Company
Avoset Company
Bank of America NT & SA
Bank of California, N.A.
Bechtel Corporation
California & Hawaiian Sugar Refining Corp. Ltd.
California Packing Corporation
California Self-Insurers Association
California State Dental Association
Coast Service Company
The Crocker-Anglo National Bank
Crown Zellerbach Corp.
Cutter Laboratories
Department of Finance — State of California
The Robert Dollar Company
The Emporium Capwell Company
Fibreboard Products, Inc.
The First Western Bank & Trust Company
Foremost Dairies, Inc.
Honolulu Oil Corporation
Kaiser Companies
Kern County Land Co.
Lando Products, Inc.
Lenkurt Electric Company, Inc.
Leslie Salt Company
Long Stores
Matson Navigation Company
Mund, McLaurin & Company
Pacific Gas & Electric Company
Pacific Guano Co.
The Pacific Telephone & Telegraph Company
Pacific Transport Lines, Inc.
Rheem Manufacturing Company
Roos Bros., Inc.
Rosenberg Bros. & Co., Inc.
Rudiger-Lang Company
Safeway Stores, Inc.
Sonora Products Company
Southern Pacific Company
Spreckels Sugar Company
Standard Oil Company of California
Swinerton & Walberg Company
Tidewater Associated Oil Company
Transocean Air Lines
The Union Ice Company
Union Lumber Company
United Air Lines, Inc.
University of California
Utah Construction Company
Wells Fargo Bank
The Western Pacific Railroad Company
Wilbur-Ellis Company

OREGON

The Bank of California, N.A.
Blitz Weinhard Company
Columbia River Packers Association, Inc.
Consolidated Freightways, Inc.
Dant & Russell, Inc.
The First National Bank of Portland
Harbor Plywood Corporation
HYster Company
Industrial Air Products Co.
Jantzen, Inc.
Lipman Wolfe & Company
Mail-Well Envelope Co.
Fred Meyer, Inc.
Oregon Pulp & Paper Company
Portland Gas & Coke Company
The United States National Bank
West Coast Lumbermen's Association
White Stag Manufacturing Co.
Willamette Iron & Steel Company

SOUTHERN CALIFORNIA

American Potash & Chemical Corp.
Baker Oil Tools, Inc.
Belridge Oil Company
Byron Jackson Company
California Bank
Carnation Company
Consolidated Rock Products Co.
Consolidated Western Steel Division of U. S. Steel Corporation
The Copley Press, Inc.
Douglas Aircraft Company, Inc.
Farmers & Merchants National Bank
The Flintkote Company (Pioneer Division)
The Fluor Corporation, Ltd.
Forest Lawn Company
The Garrett Corporation
Garett & Company, Inc.
Convair — A Division of General Dynamics Corporation
Gladding, McBean & Company
Graham Brothers, Inc.
Griffith Company
Hammond Lumber Company
The Alfred Hart Distilleries, Inc.
Hughes Aircraft Company
Kaiser Steel Corporation
Lockheed Aircraft Corp.
North American Aviation, Inc.
Northrop Aircraft, Inc.
The McCulloch Motors Corp.
Marquardt Aircraft Co.
The May Department Stores Co.
Metropolitan Water District of Southern California
Pacific Airmotive Corporation
Pacific Coast Borax Co. — Division of Borax Consolidated, Ltd.
The Ramo-Woolridge Corporation
Richfield Oil Corporation
San Gabriel Valley Water Co.
Santa Fe Drilling Company
Security-First National Bank of Los Angeles
Southern California Edison Company
Southern California Gas Co.
Superior Oil Company
Title Insurance and Trust Company
Turco Corporation
Union Oil Company of California
Von's Grocery Company

VIRGINIA-CAROLINA

American Enka Corporation
Camp Manufacturing Company, Inc.
Farmers Cooperative Exchanges, Inc.
Larus & Brother Company, Inc.
David M. Lea & Co., Inc.
Miller & Rhoads, Inc.
Noland Company, Inc.
Overnite Transportation Company
RF & P Railroad Company
Reynolds Metals Company
Smith-Douglass Company
Southern States Cooperative
Virginia Electric & Power Company

NON-CHAPTER MEMBERS

Alabama
The Ingalls Iron Works Company, Inc.
Stockham Valves & Fittings, Inc.

Arizona
Hughes Aircraft Company

Arkansas
The Crossett Company

Colorado
Colorado Fuel & Iron Corp.

Connecticut
Connecticut Light & Power Co.
The Kaman Aircraft Corporation
The United States Time Corporation
Whitney Chain Company

Delaware
Diamond Ice & Coal Company

Florida
Florida Power & Light Company
Ryder System, Inc.

Georgia
The Coca Cola Company
West Point Manufacturing Company

Illinois
Moorman Manufacturing Company
Sundstrand Machine Tool Company

Indiana
Insurance Audit & Inspection Co.
Magnavox Company

Iowa
The Rath Packing Company

Kansas
The Carey Salt Company

Kentucky
The Mengel Company

Louisiana
The California Company
United Gas Corporation

Maine
Central Maine Power Company

Massachusetts
Godfrey L. Cabot, Inc.
Simonds Saw & Steel Co.
American Optical Company
Massachusetts Mutual Life Insurance Co.
Howard D. Johnson Company
Betterley Associates
Norton Company

Michigan
Hiram Walker & Sons, Inc.
Gerber's Baby Foods
The Dow Chemical Company

Missouri
Gaylord Container Corporation Division of Crown Zellerbach Corp.
Panhandle Eastern Pipe Line Co.
Laclede Steel Company
Monsanto Chemical Company
Standard Milling Company
The Seven-Up Company
Union Electric Company of Missouri

New York
Twin Coach Company
Corning Glass Works
New York State Electric & Gas Corp.
Rochester Gas & Electric Corp.
Columbus McKinnon Chain Corp.
Will & Baumer Candle Company
Mohasco Industries, Inc.
Harold J. O'Neil

Ohio
The American Crayon Company
Firestone Tire & Rubber Company
The General Tire & Rubber Company
Diamond Alkali Company
The Parker Appliance Company
E. I. Evans & Company
The Hoover Company
Hupp Corporation
The Youngstown Sheet & Tube Company

Oklahoma
Oklahoma Gas & Electric Company

Pennsylvania
Aircraft-Marine Products, Inc.
Blaw-Knox Company
Titan Metal Manufacturing Co.
G. C. Murphy Company
Aluminum Company of America
Dravo Corporation
Eastern Gas & Fuel Associates
Mathiasen's Tanker Industries, Inc.
National Supply Company
National-U.S. Radiator Corp.
Neville Chemical Company
Pennsylvania Transformer Division — McGraw-Edison Company
Pittsburgh Coke & Chemical Company
Pittsburgh Consolidation Coal Company
Pittsburgh & West Virginia Railway Co.
Westinghouse Electric Corporation
West Penn Power Company

Rhode Island
Gorham Manufacturing Company
Grinnell Corporation
Wanskuck Company

Tennessee
Hardwick Stove Company

Texas
The Western Company

Vermont
Central Vermont Public Service Corp.

Washington
Boeing Airplane Company
Pacific American Fisheries, Inc.
Weyerhaeuser Timber Company

West Virginia
Pennsylvania Glass Sand Corp.

Wisconsin
Fred Rueping Leather Company
Chain Belt Company
Harnischfeger Corporation
The Kurth Malting Co.
Nordberg Manufacturing Co.
A. Geo. Schulz Company

ALASKA
Chugach Electric Association, Inc.

CANADA
British Columbia Electric Co. Ltd.
Legrade Inc.

Hold Harmless

(From page 53)

The seller sends his truck loaded with the material ordered and while the driver is taking it on the elevator to an upper floor the negligence of an employee of the buyer causes the death of the seller's employee.

The seller's insurer pays the compensation benefits to the deceased's dependents and under section 29 of the workmen's compensation law the insurer is assigned to the rights which would have existed to the dependents if they had sued instead of taking compensation.

The action of the seller's insurer against the buyer is an action for death brought through an administrator, but there is no statutory limit as to the amount which may be recovered.

Now the "save harmless" agreement is in form an insurance contract, enforceable, unless the law is such as to have made it void from the beginning. Supposing that it is enforceable, the buyer, when the suit papers are served on him, can call upon both of his insurers to defend or can call upon the seller alone. Unless he gives his insurance company the notices of both the accident and the suit, the insurance company can maintain a disclaimer, but as respects notice to the other insurer (the seller) there is no notice obligation and the latter would be obligated to pay a default judgment.

Supposing, however, that notices are promptly sent to both insurers, there is no right on the part of the seller to interfere in any way with the rights of the insuring company as respects the latter's defense rights and obligations and if there is a judgment for the plaintiff, say for $10,000 which, let us suppose, is the limit under the insurance company's policy, the latter would be required to pay but a small portion of the judgment for the reason that the other insurer (the seller) had undertaken its insurance without specifying any limit. This is so because policies insuring as respects injuries to the public contain provisions in effect as follows:

"If the insured has any other insurance applicable to a claim covered by this policy, the Company shall not be obligated under this policy to pay a larger proportion of, or on account of, any such claim than the limit of the Company's liability under this policy, applicable to such claim, bears to the total corresponding limits of the whole amount of valid and collectible insurance."

The above has been considered as applicable when the buyer has a policy with an insurance company applying to accidents occurring to a person not an employee, but if the buyer had had no such policy from an insurance company, it is evident that the entire judgment, although one by default, must be satisfied by the seller, provided, of course, the "save harmless" agreement is not void from the beginning.

Let us suppose now that the seller before the accident had occurred had made itself liable by the "save harmless" agreement and immediately thereafter come to the realization that its insurance policy did not apply as respects the "save harmless" agreement and with that realization it makes application to its insurance company to take over the contractual obligation assumed in the "save harmless" agreement.

If the insurer should assume that risk, the result to it, in the case supposed, might be as follows: The insurer pays the compensation to the dependents and also such portion of the judgment as may not have been satisfied by the buyer's insurer. We must keep in mind that dependents are not the only persons who may have a right in the judgment money; there may have been sons and daughters not entitled to compensation because of age, and their rights as heirs continue to exist, notwithstanding the widow and other sons and daughters have accepted compensation.

You will appreciate from the above that the insurer who paid on many such obligations as are specified in the "save harmless" agreement would not stay in the business long unless substantial premiums were collected.

If the buyer should sue the seller for the latter's refusal to "save harmless", the Court of Appeals in my opinion would hold the "save harmless" agreement void from the beginning, and for the following reasons: "Even in the instance of contracts of a corporation beyond the scope of its corporate powers, the law is well settled in this court that nothing which has been done under them or the action of the courts can infuse any vitality into them." Central Transportation Co. vs. Pullman Co. 139 U.S. 24. "A corporation shall not possess or exercise any powers unless given by law, or necessary to the powers so given." Former Gen. Corp. par. 10 now par. 13 as amended by L. 1929 Ch. 650. (New York).

In my opinion an appeal to the New York insurance commissioner would result in an elimination of the procedure referred to in letter of March 24, 1936 from SKF Industries, Inc., to you, as respects both corporations and individuals.

If you think I might be able to help you in this matter in connection with the developments to be anticipated, please do not hesitate to give me the opportunity.

Yours for a new deal,
(Signed) Benj. Brooks.

Liberty Mutual Insurance Company
Boston, Mass.

April 11, 1936.

Mr. John G. Goetz, Secretary
and Treasurer
Risk Research Institute, Inc.
30 Church Street
New York, N. Y.

Dear Mr. Goetz:

Our company has given consideration to the questions raised in Mr. Dinlocker's letter to you dated March 24, and has reviewed the exhibits attached to his letter.

We believe the proper solution of the questions raised should be approached in the following manner:

Compliance Certificates

Compliance with unemployment and old age security laws is a matter wholly within the control of an employer. Compliance is not a matter which is insurable, even if insurance were advisable. We believe that so long as the impression is prevalent that certificates are necessary, effort should be made to

standardize a satisfactory certificate. The question of insurance should be omitted entirely.

The seller of products should not be required or requested to assume liability or agree to provide indemnity beyond his own business operations. It is manifestly inequitable to require or request him to indemnify and hold harmless the purchaser for any act or situation which involves the negligence of the purchaser.

If the use of contractual liability paragraphs on order forms must continue, we suggest that through the proper channels a standard paragraph be adopted. Such a standard paragraph should be confined to indemnification of the purchaser against the negligence of the seller. If a standard form, as above suggested, can be adopted, a blanket contractual liability coverage under the seller's public liability policy is practicable.

Obviously the development of a plan such as is above suggested will take time. Pending a permanent solution it is necessary to consider what steps can be taken to meet the situation which now exists. As Mr. Dinlocher points out, sellers are now faced with loss of business if they do not accept the contractual undertakings now in use.

Some of the forms now being used do not go beyond the negligence of the seller. A few of them go too far.

As a practical temporary solution, we suggest a blanket contractual liability coverage limited to the negligence of the seller. A seller who is protected can rely upon this protection with respect to contractual forms limited to his own negligence. When required to assume liability beyond his own negligence, he can procure special contractual coverage in each instance.

The difficulties in working out a practical method to meet existing conditions are difficulties of rating, but we believe they do not involve insuperable obstacles. (Signed)
E. W. SAWYER, *Ass't. Gen'l. Counsel*

Current Group

(From page 47)

1929 and the early 30's when the losses were so staggering and the abuse so flagrant that we all withdrew from this type of underwriting completely. Even today, almost 30 years later, we have claim men in New York City operating with a moving picture camera, still trying to extricate us from the "debris."

I am optimistic, but I do not believe that our economy can continue forever at its current pace. And when employment eases off, "all the ills that flesh is heir to" tend to inflict themselves upon us senior citizens.

Next, let's remember that we are dealing with human nature. As you appreciate, man is unpredictable and the best of us may succumb to temptation. One might rationalize thus: I am reaching retirement; I am now age 64. At 65 I am through; I will receive Social Security and, in addition, a pension from my employer. The future doesn't look very promising, as I haven't accumulated much in the way of an estate. But I now have $5,000 of Group Life Insurance, which will either be canceled or reduced to a very nominal amount—*and it* does have a Disability Clause; *and* if I can establish that I am permanently and totally disabled, the full amount will be kept in force until I die, thus creating an estate, or I myself might receive some income while I am alive.

Fantastic? I am certain that some of you think it is; but I don't — because I know of more than one case where 50% and — yes — 75% of some 400 or 500 employees of one employer presented claims for Permanent Total Disability benefits at one time in 1930: The result could have been disastrous.

I have a great deal of respect for Industry Seminars and attend many such meetings; but I would like to caution you that when *you* attend, just because one of your contemporaries may have pressured his group carrier into certain concessions and, as a result, seems to be occupying the spotlight, that doesn't make the concession a sound one or a good one for you. Such gimmicks, or so-called "Liberalizations" are constantly coming up in the Hospitalization and Major Medical fields. Again, there is no such thing as a "Lower rate." It is your Company's money, and *it* is going to pay the bill—so don't kid yourself!

The Group Casualty coverage morbidity (particularly the Major Medical portion) is not susceptible to the thorough analysis and accurate actuarial projections of Group Life Insurance.

Major Medical is a new line. There has been little exchange of information on an industry basis as yet. We continue to recommend a conservative approach, because we know that it is impossible for anyone to predict how much medical expense may have increased one year hence, to say nothing of five years. Unknown factors will determine that, based largely on our economy. We do know, however, that currently we have seen instances in which the fee for an appendectomy has been as much as $5,000. What will it be in 1962? Your guess is as good as ours.

Again—what will the impact of the expense of psychiatric treatment be? We currently are experiencing a situation where fees for employees actively employed are running $200 monthly or more — all of which has contributed to a first-year loss ratio on a sizeable comprehensive medical expense plan in the neighborhood of 250%. This again is the Employer's money!

One thing of which we are certain—and this is substantiated by many well-known hospital authorities — hospital expense will increase a minimum of 5% per year over the next 10 years. Why? Primarily because little about a hospital can be mechanized. It depends on human skills. Hospitals are competing in the labor market, and today must provide comparable benefits, such as Group Life, pensions, sick leave, and vacations with pay.

Variable Annuities

(From page 41)

with the expense margin guaranteed. As we would propose to write a variable annuity plan, the unit value would vary only with investment experience, the expense and mortality assumptions being guaranteed. This position, particularly the guarantee of mortality assumptions, seems more consistent with the principle objective, which is to establish a plan which is responsive to economic changes. Furthermore, in small groups, mortality fluctuations may cause chance variations entirely out of keeping with the purpose of the plan.

If only investment results are to affect the variable annuity unit value, the manner of variation can be rather simply expressed. In addition to setting the mortality rate and expense margin which the company will guarantee, we also establish an assumed investment increment rate. This will generally be the interest rate being guaranteed for conventional plans. The unit value will then vary from one period to the next in the ratio which actual investment results bear to the assumed result. For example, suppose that we have assumed an investment increment rate (reflecting both appreciation and income) of 2% per year and that the actual increment rate, including capital gains and losses, is 7.1%. Then, if the unit value at the beginning of the year is \$2.00, the unit value at the end of the year will be $\$2.00 \times \frac{1.071}{1.02} = \$2.10$. Suppose that during the next year, the actual investment increment is —5.3%. Then the unit value at the end of the second year will be $\$2.10 \times \frac{1-.053}{1.02} = \$1.95$.

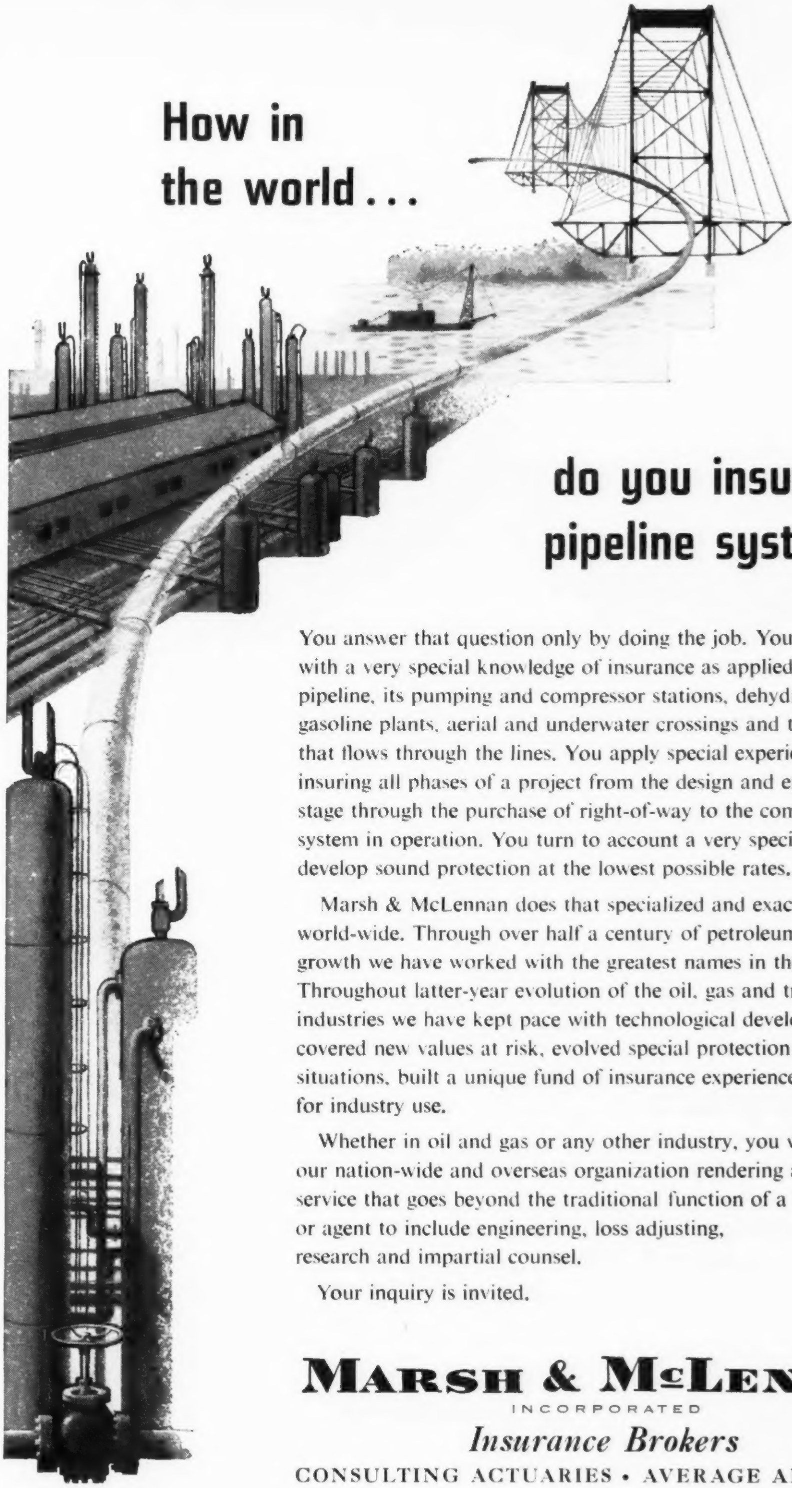
And now, just a few words about the application of the variable annuity principle to group annuities. In general, it is possible to design a variable pension plan to be the counterpart for any fixed dollar plan. Among the types of benefit formulas that can be adapted are the traditional (1) money-purchase plan, when the employer contributions are a uniform percentage of earnings, without regard to age or sex; (2) uniform-credit, where the benefit for each year of service is a uniform percentage of earnings; (3) final-salary, under which the benefit is related to average earnings for a five or ten-year period preceding retirement. Plans may be written on the deferred annuity type of contract under which units of deferred pension are purchased each year on the lives of covered employees and they may be written on a deposit administration contract, under which annuities are normally purchased only as employees retire.

No matter what type of plan is written, it is important to remember that the studies which have demonstrated the value of the variable annuity principle, have also clearly shown the desirability of providing variable annuity benefits only when they are properly balanced with conventional fixed-dollar benefits. It is generally conceded that at least 50% of the dollars being used to purchase pension benefits should be put into a fixed-dollar plan.

Finally, I should like to say that a primary consideration in any retirement program is conservatism; i.e., literally the conservation of a portion of the fruits of today's labor for tomorrow's retirement. But in our economic history, there have been many periods when the traditional fixed-dollar plans, which have conserved the dollars, have fallen short of conserving the purchasing power which those dollars had when they were paid in. On the other hand, there have also been periods during which purchasing power was better conserved by fixed-dollar investments than by equities.

This indicates to us that the true course of conservatism is to hedge both ways with a balanced retirement plan—partly variable, based on equities investments as a hedge against inflation — partly fixed-dollar as a hedge against deflation and to provide a solid floor below which benefits cannot fall regardless of stock market results. This is intelligent conservatism in retirement planning and, to us, a logical and proper cause for a life insurance company to advocate.

Advertisers — May 1957



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